



Rating  
**Sell**

Asia  
China

Resources  
Metals & Mining

Company  
**Yanzhou Coal**

Reuters 1171.HK	Bloomberg 1171 HK	Exchange HKG	Ticker 1171
ADR Ticker YZC	ISIN US9848461052		

Date  
30 March 2015

Results

Price at 27 Mar 2015 (HKD)	6.11
Price target - 12mth (HKD)	4.20
52-week range (HKD)	7.18 - 5.74
HANG SENG INDEX	24,486

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## FY14 result missed DBe and consensus; re-iterating Sell

### Yanzhou Coal's FY14 result missed DBe and consensus; re-iterating Sell

Yanzhou Coal announced its FY14 results on an IFRS basis after market close on Mar 27. It reached an NPAT of RMB766m in FY14, disappointing our estimate of RMB1,459m and bbg consensus of RMB1,770m. FY14 NPAT was flat with FY13, and operating profit (announced number, factoring impairment loss and exchange gain/loss) even increased from RMB307m in FY13 to RMB1,412m in FY14. However, the increase in OP and positive NP were mainly supported by non-op items. Together with our negative outlook for the China coal industry, we re-iterate our Sell rating for Yanzhou Coal.

### Positive FY14 earnings mainly supported by non-op items

In Yanzhou Coal's announced results, the positive bottom line was mainly contributed by two items. First, SG&A declined by RMB4,311m YoY, mainly due to the absence of impairment loss (RMB2,052m in FY13) and exchange loss (RMB1,686m in FY13). Second, other income increased RMB1,362m YoY, mainly due to the impairment loss reversal of RMB731m, exchange gain of RMB154m, as well as interest income increase. If we strip out these non-op items, the bottom line would likely be a loss and reveal the actual profitability issue. In terms of operational information, the margins of coal producers have been deteriorating under the sustaining coal market weakness. As we can see from Figure 2, the ASP decline far exceeds the unit cost decline of both Yanzhou's self-produced coal and total coal sales volume.

### Negative coal industry outlook; Sell re-iterated

The lack of demand improvement and supply discipline will continue to hurt coal prices. As for Yanzhou Coal, Yancoal Australia's business might be affected by China's further initiatives on coal imports. As such, we maintain Sell for Yanzhou Coal. Our target price is based on an SOTP approach with DCF used to value the separate businesses. We value the coal business with life-of-mine DCF. We adopt 7.4% as the cost of capital for Yanzhou Coal, reflecting a risk-free rate of 3.9%, a market risk premium of 5.6% and beta of 1.1. Risks: higher coal price and lower unit cost.

### Forecasts And Ratios

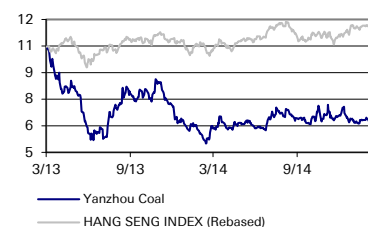
Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (CNYm)	58,146.2	56,401.8	56,902.3	56,168.4	60,017.0
EBITDA (CNYm)	9,437.8	8,553.6	7,821.0	8,753.8	9,694.6
Reported EPS FD(CNY)	1.23	0.16	0.30	0.23	0.29
Reported NPAT (CNYm)	6,065.6	777.4	1,458.8	1,113.8	1,408.3
DB EPS growth (%)	-30.6	-87.2	87.7	-23.7	26.4
DB EPS FD(CNY)	1.23	0.16	0.30	0.23	0.29
PER (x)	9.3	43.3	16.5	21.6	17.1
EV/EBITDA (x)	8.9	9.0	8.6	7.8	7.1
DPS (net) (CNY)	0.36	0.02	0.09	0.07	0.37
Yield (net) (%)	3.2	0.3	1.8	1.4	7.6

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-4.5	-5.9	4.1
HANG SENG INDEX	-1.4	4.9	12.1

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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Model updated: 07 November 2014

Running the numbers

Asia

China

Metals & Mining

Yanzhou Coal

Reuters: 1171.HK

Bloomberg: 1171 HK

Sell

Price (27 Mar 15)

HKD 6.11

Target Price

HKD 4.20

52 Week range

HKD 5.74 - 7.18

Market Cap (m)

HKDm 30,051

USDm 3,876

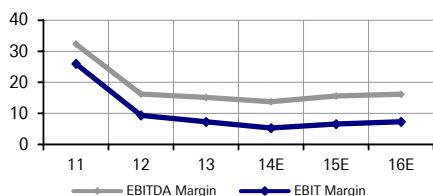
Company Profile

Yanzhou Coal Mining Company Limited operates underground mining and coal preparation and operation businesses. Its products are sold in domestic and international markets. The Company also provides railway transportation services.

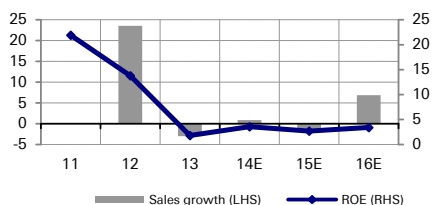
Price Performance



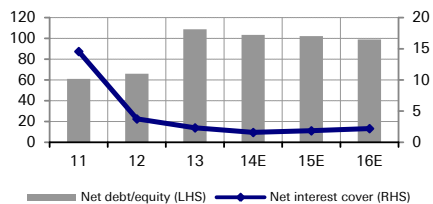
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

2011 2012 2013 2014E 2015E 2016E

Financial Summary

DB EPS (CNY)	1.78	1.23	0.16	0.30	0.23	0.29
Reported EPS (CNY)	1.78	1.23	0.16	0.30	0.23	0.29
DPS (CNY)	0.57	0.36	0.02	0.09	0.07	0.37
BVPS (CNY)	8.6	9.3	8.2	8.4	8.4	8.4
Weighted average shares (m)	4,918	4,918	4,918	4,918	4,918	4,918
Average market cap (CNYm)	98,507	56,148	33,663	24,082	24,082	24,082
Enterprise value (CNYm)	113,805	84,405	77,223	67,156	68,269	68,978

Valuation Metrics

P/E (DB) (x)	11.3	9.3	43.3	16.5	21.6	17.1
P/E (Reported) (x)	11.3	9.3	43.3	16.5	21.6	17.1
P/BV (x)	1.60	1.13	0.68	0.58	0.58	0.58
FCF Yield (%)	1.2	nm	nm	3.7	0.5	2.7
Dividend Yield (%)	2.8	3.2	0.3	1.8	1.4	7.6
EV/Sales (x)	2.4	1.5	1.4	1.2	1.2	1.1
EV/EBITDA (x)	7.5	8.9	9.0	8.6	7.8	7.1
EV/EBIT (x)	9.3	15.5	18.8	22.4	18.5	15.7

Income Statement (CNYm)

Sales revenue	47,066	58,146	56,402	56,902	56,168	60,017
Gross profit	18,524	12,626	10,688	9,420	9,524	10,236
EBITDA	15,222	9,438	8,554	7,821	8,754	9,695
Depreciation	2,266	2,819	3,125	3,502	3,742	3,982
Amortisation	720	1,178	1,325	1,325	1,325	1,325
EBIT	12,236	5,441	4,104	2,994	3,687	4,388
Net interest income/(expense)	-839	-1,449	-1,766	-1,891	-1,991	-1,991
Associates/affiliates	69	-50	-142	-142	-142	-142
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	794	2,128	-2,776	1,248	1,006	982
Profit before tax	12,260	6,070	-580	2,209	2,560	3,237
Income tax expense	3,467	36	-395	434	640	809
Minorities	48	-31	-963	316	807	1,020
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	8,745	6,066	777	1,459	1,114	1,408
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	8,745	6,066	777	1,459	1,114	1,408

Cash Flow (CNYm)

Cash flow from operations	17,977	6,504	-2,201	10,315	6,131	6,646
Net Capex	-16,797	-8,139	-12,092	-9,414	-6,000	-6,000
Free cash flow	1,180	-1,636	-14,293	901	131	646
Equity raised/(bought back)	0	0	1	0	0	0
Dividends paid	-2,902	-2,804	-1,771	-98	-438	-334
Net inc/(dec) in borrowings	11,425	8,984	15,319	3,591	0	0
Other investing/financing cash flows	-5,958	611	-1,131	0	0	0
Net cash flow	3,745	5,155	-1,875	4,394	-306	311
Change in working capital	-7,041	-4,404	7,631	-4,030	49	69

Balance Sheet (CNYm)

Cash and other liquid assets	8,145	12,717	10,923	15,459	15,294	15,748
Tangible fixed assets	31,274	39,503	41,897	47,809	50,067	52,086
Goodwill/intangible assets	28,072	36,208	40,717	39,392	38,067	36,742
Associates/investments	11,724	7,108	7,903	7,761	7,618	7,476
Other assets	17,675	26,629	26,019	24,872	24,675	25,668
Total assets	96,890	122,165	127,458	135,293	135,722	137,720
Interest bearing debt	34,476	44,892	58,778	62,370	62,370	62,370
Other liabilities	19,272	28,553	24,694	27,576	27,330	28,253
Total liabilities	53,748	73,445	83,472	89,946	89,699	90,623
Shareholders' equity	42,451	45,530	40,379	41,423	41,293	41,347
Minorities	691	3,190	3,607	3,923	4,730	5,750
Total shareholders' equity	43,142	48,720	43,986	45,347	46,023	47,097
Net debt	26,331	32,175	47,856	46,911	47,075	46,622

Key Company Metrics

Sales growth (%)	nm	23.5	-3.0	0.9	-1.3	6.9
DB EPS growth (%)	na	-30.6	-87.2	87.7	-23.7	26.4
EBITDA Margin (%)	32.3	16.2	15.2	13.7	15.6	16.2
EBIT Margin (%)	26.0	9.4	7.3	5.3	6.6	7.3
Payout ratio (%)	32.1	29.2	12.7	30.0	30.0	130.0
ROE (%)	21.9	13.8	1.8	3.6	2.7	3.4
Capex/sales (%)	35.7	14.0	21.4	16.5	10.7	10.0
Capex/depreciation (x)	5.6	2.0	2.7	2.0	1.2	1.1
Net debt/equity (%)	61.0	66.0	108.8	103.4	102.3	99.0
Net interest cover (x)	14.6	3.8	2.3	1.6	1.9	2.2

Source: Company data, Deutsche Bank estimates

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# Yanzhou Coal's FY14 result summary

Figure 1: Yanzhou Coal's FY14 summary

RMBm	2014	2013	YoY	2H14	1H14	HoH	2H13	YoY	DBe % of DBe	Cons.	% of Cons.	Comments	
Revenue	60,371	56,402	7%	29,437	30,933	-5%	31,161	-6%	56,902	106%	57,321	105%	Mainly resulting from sales volume increase of externally purchased coal
COGS	(52,889)	(45,714)	16%	(26,293)	(26,596)	-1%	(25,376)	4%	(47,483)	111%	(47,949)	110%	Mainly due to cost increase of externally purchased coal
GP	7,481	10,688	-30%	3,144	4,337	-27%	5,785	-46%	9,420	79%	9,372	80%	
SG&A	(6,070)	(10,381)	-42%	(2,501)	(3,569)	-30%	(1,692)	48%	(5,674)	107%	(6,044)	100%	Yanzhou Coal's SG&A included impairment loss (on intangible assets) and exchange loss. There were RMB2,052mn and RMB1,686mn incurred in each respectively, but none in FY14
OP	1,412	307	360%	643	768	-16%	4,093	-84%	2,994	47%	3,328	42%	"Real" OP, stripping out impairment loss and exchange loss, declined from RMB4,045mn in FY13 to RMB1,412mn in FY14
NPAT	766	777	-1%	164	602	-73%	2,850	-94%	1,459	53%	1,770	43%	
Operating cashflow	4,172	(2,201)	na	3,762	410	818%	(2,034)	-285%	10,315	40%	na	na	
GPM	12%	19%	na	11%	14%	na	19%	na	17%	na	16%	na	
SG&A % of revenue	10%	18%	na	8%	12%	na	5%	na	10%	na	11%	na	
Effective tax rate	70%	68%	na	91%	-10%	na	23%	na	20%	na	na	na	
Gearing ratio	101%	94%	na	101%	88%	na	94%	na	103%	na	na	na	

Source: Deutsche Bank, company data, Bloomberg Finance LP





Figure 2: Operation summary of Yanzhou's coal business

	2014	2013	YoY	2H14	1H14	HoH	2H13	YoY	DBe	% of DBe
<b>Sales volume (mt)</b>										
The Company	34.75	33.27	4%	16.67	18.08	-8%	17.51	-5%	35.4	98%
Shanxi Neng Hua	1.50	1.48	2%	0.73	0.77	-6%	0.84	-14%	1.6	94%
Heze Neng Hua	3.11	2.36	32%	1.42	1.69	-16%	1.38	3%	3.2	97%
Ordos Neng Hua	5.79	6.35	-9%	3.32	2.47	34%	3.68	-10%	6.0	97%
Yancoal Australia	15.74	15.62	1%	8.68	7.06	23%	8.52	2%	15.3	103%
Yancoal International	5.16	5.53	-7%	2.71	2.45	10%	2.70	0%	4.9	105%
<b>Self-produced</b>	<b>66.05</b>	<b>64.60</b>	<b>2%</b>	<b>33.52</b>	<b>32.53</b>	<b>3%</b>	<b>34.63</b>	<b>-3%</b>	<b>66.4</b>	<b>99%</b>
Externally purchased coal	57.02	39.40	45%	30.14	26.89	12%	24.68	22%	49.1	116%
<b>Subtotal</b>	<b>123.08</b>	<b>104.00</b>	<b>18%</b>	<b>63.66</b>	<b>59.42</b>	<b>7%</b>	<b>59.32</b>	<b>7%</b>	<b>115.6</b>	<b>106%</b>
<b>ASP (RMB/t)</b>										
The Company	440	535	-18%	409	468	-13%	503	-19%	448	98%
Shanxi Neng Hua	211	282	-25%	191	229	-17%	272	-30%	219	96%
Heze Neng Hua	526	609	-14%	527	524	1%	574	-8%	496	106%
Ordos Neng Hua	163	188	-13%	156	173	-10%	184	-16%	166	98%
Yancoal Australia	464	574	-19%	417	521	-20%	569	-27%	498	93%
Yancoal International	287	304	-6%	280	295	-5%	316	-11%	292	98%
<b>Self-produced</b>	<b>408</b>	<b>487</b>	<b>-16%</b>	<b>376</b>	<b>441</b>	<b>-15%</b>	<b>468</b>	<b>-20%</b>	<b>419</b>	<b>97%</b>
Externally purchased coal	554	583	-5%	528	582	-9%	566	-7%	551	100%
<b>Group total</b>	<b>476</b>	<b>524</b>	<b>-9%</b>	<b>448</b>	<b>505</b>	<b>-11%</b>	<b>509</b>	<b>-12%</b>	<b>475</b>	<b>100%</b>
<b>Unit cost (RMB/t)</b>										
The Company	251	264	-5%	244	265	-8%	239	2%	na	na
Shanxi Neng Hua	184	229	-20%	206	162	27%	244	-15%	na	na
Heze Neng Hua	345	464	-26%	384	312	23%	438	-12%	na	na
Ordos Neng Hua	155	158	-2%	159	150	6%	154	3%	na	na
Yancoal Australia	363	434	-16%	330	404	-18%	423	-22%	na	na
Yancoal International	274	262	4%	265	283	-6%	288	-8%	na	na
<b>Self-produced</b>	<b>278</b>	<b>305</b>	<b>-9%</b>	<b>264</b>	<b>292</b>	<b>-10%</b>	<b>287</b>	<b>-8%</b>	<b>292</b>	<b>95%</b>
Externally purchased coal	550	580	-5%	525	578	-9%	563	-7%	548	100%
<b>Group total</b>	<b>404</b>	<b>409</b>	<b>-1%</b>	<b>388</b>	<b>422</b>	<b>-8%</b>	<b>402</b>	<b>-3%</b>	<b>401</b>	<b>101%</b>

Source: Deutsche Bank, company data

Figure 3: Operation information of Yanzhou Coal's other businesses

	2014	2013	YoY	2H14	1H14	HoH	2H13	YoY	DBe	% of DBe
<b>Railway</b>										
Revenue (RMB mn)	374	458	-18%	158	215	-27%	247	-36%	467	80%
COGS (RMB mn)	250	325	-23%	118	132	-11%	164	-28%	327	77%
Volume (mt)	17	18	-9%	8	9	-14%	10	-22%	na	na
<b>Coal-to-chemical</b>										
Revenue (RMB mn)	1,195	1,156	3%	565	631	-11%	568	-1%	1255	95%
COGS (RMB mn)	869	899	-3%	438	431	2%	450	-3%	858	101%
Methanol production (mt)	0.65	0.61	6%	0.31	0.33	-6%	0.27	15%	na	na
Methanol sales (mt)	0.66	0.60	9%	0.32	0.34	-6%	0.27	17%	na	na



<b>Power</b>										
Revenue (RMB mn)	214	332	-35%	145	70	108%	157	-8%	235	91%
COGS (RMB mn)	160	321	-50%	105	55	93%	175	-40%	226	71%
Power generation (mn kwh)	1,605	1,234	30%	1,003	602	67%	592	70%	na	na
Power dispatch (mn kwh)	722	879	-18%	558	165	238%	421	33%	na	na

<b>Heat</b>										
Revenue (RMB mn)	21	11	86%	8	13	-33%	6	45%	19	110%
COGS (RMB mn)	11	7	67%	5	6	-13%	4	39%	9	125%
Heat generation (kt)	1,300	1,320	-2%	420	880	-52%	430	-2%	na	na
Heat sales (kt)	90	50	80%	40	50	-20%	30	33%	na	na

<b>Total other seg</b>										
Revenue (RMB mn)	1,804	1,957	-8%	876	928	-6%	978	-10%	1976	91%
COGS (RMB mn)	1,290	1,551	-17%	666	624	7%	793	-16%	1420	91%
GP (RMBmn)	514	406	27%	210	304	-31%	185	14%	556	92%

Source: Deutsche Bank, company data



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Yanzhou Coal	1171.HK	6.10 (HKD) 27 Mar 15	1,7,14

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

## Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.
7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
14. Deutsche Bank and/or its affiliate(s) has received non-investment banking related compensation from this company within the past year.

## Important Disclosures Required by Non-U.S. Regulators

Please also refer to disclosures in the Important Disclosures Required by US Regulators and the Explanatory Notes.

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For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=1171.HK>

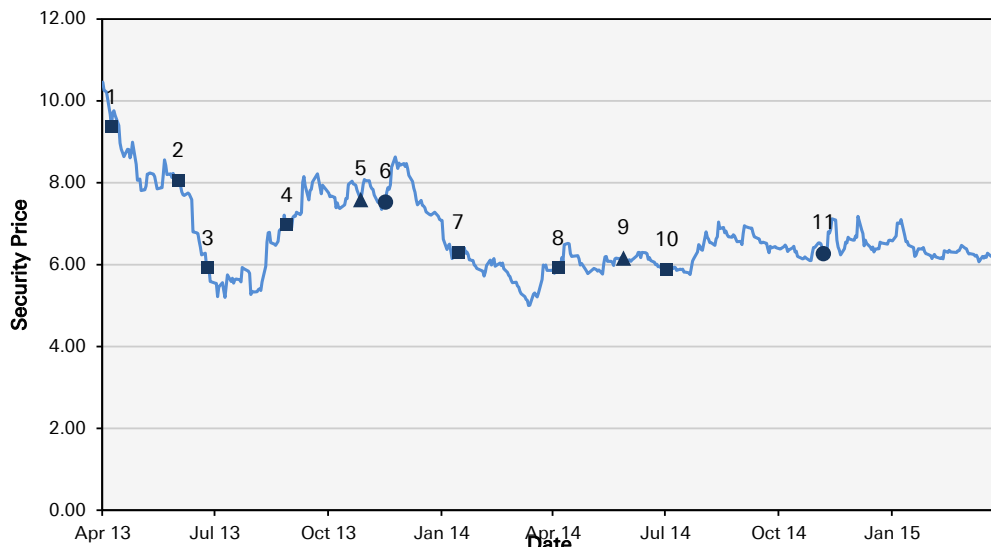
## Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. James Kan



Historical recommendations and target price: Yanzhou Coal (1171.HK)

(as of 3/27/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1.	09/04/2013:	Sell, Target Price Change HKD9.00	7.	15/01/2014:	Sell, Target Price Change HKD4.50
2.	02/06/2013:	Sell, Target Price Change HKD7.00	8.	06/04/2014:	Sell, Target Price Change HKD4.40
3.	26/06/2013:	Sell, Target Price Change HKD5.00	9.	29/05/2014:	Upgrade to Hold, Target Price Change HKD5.80
4.	29/08/2013:	Sell, Target Price Change HKD4.20	10.	03/07/2014:	Hold, Target Price Change HKD5.50
5.	28/10/2013:	Upgrade to Hold, Target Price Change HKD7.70	11.	07/11/2014:	Downgrade to Sell, Target Price Change HKD4.20
6.	17/11/2013:	Downgrade to Sell, Target Price Change HKD5.50			

Equity rating key

**Buy:** Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield ) , we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.

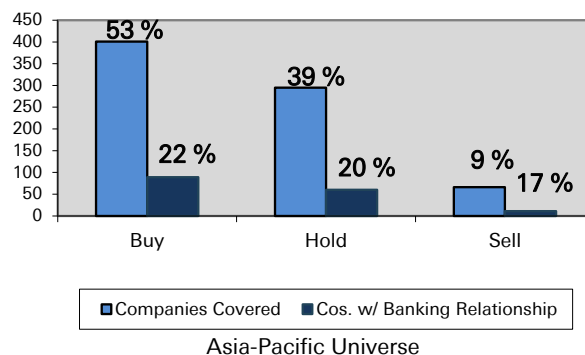
2. Ratings definitions prior to 27 January, 2007 were:

**Buy:** Expected total return (including dividends) of 10% or more over a 12-month period

**Hold:** Expected total return (including dividends) between -10% and 10% over a 12-month period

**Sell:** Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships





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