

Yancoal Australia (3668 HK)

1H24 net profit -57% YoY below expectations; No interim dividend suggests potential M&A

Yancoal's (YAL) net profit came in at A\$420mn in 1H24 (-57% YoY) which is slightly below our expectation due to higher-than-expected unit cost. Unlike that in 2022 and 2023, YAL did not propose interim dividend this time despite a strong net cash position (A\$1.42bn as at end-Jun). Therefore, we do not rule out the possibility that YAL is getting closer to a potential M&A deal to boost product diversification and long-term growth. YAL maintains the full-year range of guidance on sales volume, unit cost and capex. We trim our 2024E-26E earnings forecast by 6-7%, after revising up our unit cost assumptions by 3.5-4.0%. Our NPV-based TP is revised down to HK\$42 from HK\$45. The stock remains attractive at 6.6x 2024E P/E and >7% yield. Maintain **BUY**.

- Key highlights on 1H24 results.** Revenue dropped 21% YoY to A\$3.1bn, as the 17% YoY coal sales volume growth (to 16.9mt) was more than offset by the 37% YoY decline in blended coal ASP (to A\$176/t). EBIT declined 58% to A\$587mn due to operating de-leveraging. Net profit dropped 57% YoY to A\$420mn. Operating cash inflow was A\$851mn, higher than the net profit. As at end-Jun 2024, YAL had net cash of A\$1.42bn.
- Unit cost reduction still underway.** The unit cash operating cost (excluding royalties) in 1H24 was A\$101/t, -7% YoY but +17% HoH. Despite our higher unit cost assumptions, we still expect YAL to achieve ~7% YoY unit cash cost reduction in 2H24E.
- 2024E full-year guidance unchanged:** (1) attributable saleable production: 35-39mn tonnes (up 5%-17% YoY); (2) operating cash cost (excluding royalties): A\$89-97/t (-7% to +1% YoY); (3) capex: A\$650-800mn (up 5%-29% YoY).
- Key risks:** (1) further decline in coal price; (2) rebound of unit cost; (3) extreme weather that affects production.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (AUD mn)	10,548	7,778	7,138	6,893	6,872
YoY growth (%)	95.2	(26.3)	(8.2)	(3.4)	(0.3)
Net profit (AUD mn)	3,587.0	1,818.7	1,388.5	1,241.0	1,243.5
EPS (Reported) (AUD)	2.72	1.38	1.05	0.94	0.94
YoY growth (%)	355.0	(49.3)	(23.7)	(10.6)	0.2
Consensus EPS (AUD)	na	na	1.11	1.16	1.20
P/E (x)	2.6	5.0	6.6	7.4	7.4
P/B (x)	1.1	1.1	1.0	0.9	0.9
Yield (%)	17.7	10.0	7.6	6.8	6.8
ROE (%)	50.6	22.1	15.6	13.0	12.5
Net gearing (%)	(25.2)	(14.8)	(27.8)	(30.9)	(39.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$42.00
(Previous TP)	HK\$45.00)
Up/Downside	17.0%
Current Price	HK\$35.90

China Energy

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	47,403.8
Avg 3 mths t/o (HK\$ mn)	74.2
52w High/Low (HK\$)	38.90/23.50
Total Issued Shares (mn)	1321

Source: FactSet

Shareholding Structure

Yankuang Energy	62.3%
China Cinda AM	7.7%

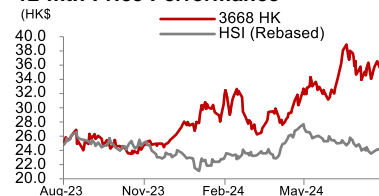
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.5%	2.6%
3-mth	16.2%	29.3%
6-mth	17.7%	8.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: ShineWing Australia

Related Reports

- Yancoal Australia (3668 HK) – 2Q24 sales volume +1%; Full year target still achievable – 19 Jul 2024 ([link](#))
- Yancoal Australia (3668 HK) – Higher coal price assumptions after the fire incident at Grosvenor coal mine – 8 Jul 2024 ([link](#))
- Yancoal Australia (3668 HK) – Decline in 2023 net profit largely expected; Valuation to be supported by attractive yield – 26 Feb 2024 ([link](#))

Figure 1: YAL's 1H24 results highlights

YE Dec 31(A\$ mn)	1H23	1H24	Change (YoY)
Revenue			
Sales of coal	3,853	3,030	-21.4%
Sea freight	42	44	4.8%
Fair value of losses recycled from hedge reserve	0	0	n/a
Sub-total	3,895	3,074	-21.1%
Other revenue			
Interest income	52	39	-25.0%
Mining services fees	0	0	
Royalty revenue & others	29	25	-13.8%
Total (other revenue)	81	64	-21.0%
Total revenue	3,976	3,138	-21.1%
Other income/(loss)	25	53	112.0%
Change in inventories of finished goods & work in progress	-19	-10	-47.4%
Raw materials and consumables used	-549	-585	6.6%
Employee benefits	-348	-401	15.2%
Transportation	-401	-412	2.7%
Contractual services and plant hire	-260	-295	13.5%
Government royalties	-365	-261	-28.5%
Coal purchase	-94	-102	8.5%
Other operating expenses	-153	-138	-9.8%
Depreciation and amortisation	-411	-400	-2.7%
EBIT	1,401	587	-58.1%
Finance expenses	-29	-20	-31.0%
Share of profit of JV and associates	16	4	-75.0%
Pretax profit	1,388	571	-58.9%
Income tax	-415	-151	-63.6%
After tax profit	973	420	-56.8%
MI	0	0	n/a
Net profit	973	420	-56.8%
D&A	411	400	-2.7%
EBITDA	1,812	987	-45.5%

Source: Company data, CMBIGM

Figure 2: YAL's quarterly operating statistics

	1Q23	1Q24	Chg (YoY)	2Q23	2Q24	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
Marketable coal production (mn tonnes)												
(100% equity basis)												
Mines												
HVO	1.8	2.8	56%	2.4	2.0	-17%	2.4	3.0	25%	1.6	3.3	106%
Mount Thorley Warkworth (MTW)	2.0	2.2	10%	2.6	2.5	-4%	2.1	3.3	57%	2.3	3.4	48%
Moolarben	2.6	5.0	92%	4.8	4.5	-6%	3.4	4.5	32%	3.1	4.8	55%
Stratford Duralie	0.1	0.1	0%	0.1	0.0	-100%	0.2	0.2	0%	0.2	0.2	0%
Yarrabee	0.4	0.4	0%	0.5	0.4	-20%	0.5	0.5	0%	0.6	0.5	-17%
Middlemount	0.5	0.5	0%	0.5	0.6	20%	0.7	0.6	-14%	0.5	0.6	20%
Ashton	0.3	0.3	0%	0	0.3	n/a	0.3	0.0	-100%	0.2	0.1	-50%
Total	7.7	11.3	47%	10.9	10.3	-6%	9.6	12.1	26%	8.5	12.9	52%
Marketable coal production (mn tonnes)												
(Attributable basis)												
Total	5.9	8.8	49%	8.5	8.2	-4%	7.3	9.3	27%	6.6	9.7	47%
Attributable sales volume (mn tonnes)												
Thermal	4.7	7.3	55%	7.3	7.5	3%	5.8	7.7	33%	5.5	8.7	58%
Metallurgical	1.2	1.0	-17%	1.2	1.0	-17%	0.9	0.9	0%	1.4	1.4	-2%
Total	5.9	8.3	41%	8.5	8.6	1%	6.7	8.6	28%	6.9	10.1	46%
ASP (A\$/tonne)												
Thermal	338	159	-53%	197	163	-17%	489	178	-64%	430	180	-58%
Metallurgical	383	334	-13%	403	318	-21%	434	360	-17%	389	292	-25%
Blended	347	180	-48%	226	181	-20%	481	197	-59%	422	196	-54%

Source: Company data, CMBIGM

Figure 3: Change in key operating assumptions

	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Marketable coal production (mn tonnes)									
(100 % equity basis)									
Consolidated mines									
HVO	13.0	14.0	15.0	13.0	14.0	15.0	0.0%	0.0%	0.0%
Mount Thorley Warkworth (MTW)	13.0	13.5	13.8	13.0	13.5	13.8	0.0%	0.0%	0.0%
Moolarben	18.5	19.0	19.5	18.5	19.0	19.5	0.0%	0.0%	0.0%
Stratford Duralie	0.0	0.0	0.0	0.0	0.0	0.0	n/a	n/a	n/a
Yarrabee	2.0	2.0	2.0	2.0	2.0	2.0	0.0%	0.0%	0.0%
Middlemount	2.7	3.0	3.3	2.7	3.0	3.3	0.0%	0.0%	0.0%
Ashton	0.3	0.3	0.3	0.3	0.3	0.3	0.0%	0.0%	0.0%
Total	49.5	51.8	53.9	49.5	51.8	53.9	0.0%	0.0%	0.0%
Sales volume (mn tonnes)									
Thermal	32.1	33.3	33.9	32.1	33.3	33.9	0.0%	0.0%	0.0%
Metallurgical	5.2	5.4	6.0	5.2	5.4	6.0	0.0%	0.0%	0.0%
Total	37.3	38.7	39.9	37.3	38.7	39.9	0.0%	0.0%	0.0%
ASP (A\$/t)									
Thermal	170	157	152	170	157	152	0.0%	0.0%	0.0%
Metallurgical	300	280	260	300	280	260	0.0%	0.0%	0.0%
Blended	188	174	168	188	174	168	0.0%	0.0%	0.0%
Cash operating cost breakdown (A\$/tonne)									
Unit cash operating cost	-107	-104	-101	-110	-107	-104	3.3%	3.0%	3.0%
Unit cash operating cost (excluding government royalties)	-90	-88	-86	-93	-91	-89	3.9%	3.5%	3.5%
Unit cash margin (excluding government royalties)	99	86	82	95	83	79	-3.6%	-3.6%	-3.7%
Net profit (A\$ mn)	1,477	1,324	1,331	1,389	1,241	1,243	-6.0%	-6.2%	-6.6%

Source: Company data, CMBIGM estimates

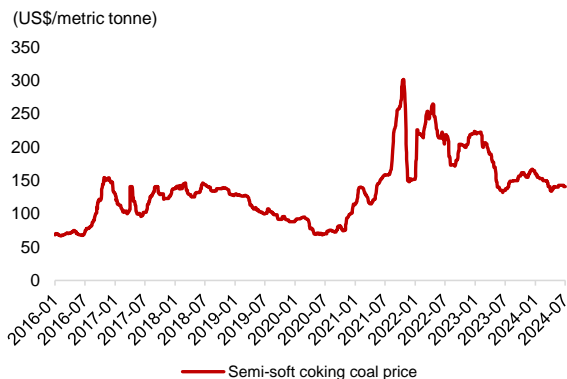
Figure 4: Key operating assumptions

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Marketable coal production (mn tonnes)								
(100 % equity basis)								
Mines								
HVO	13.7	12.0	10.6	9.6	10.5	13.0	14.0	15.0
Mount Thorley Warkworth (MTW)	12.1	11.9	11.2	8.1	11.3	13.0	13.5	13.8
Moolarben	17.8	19.7	18.4	14.9	16.7	18.5	19.0	19.5
Stratford Duralie	0.8	0.5	0.8	0.7	0.6	0.0	0.0	0.0
Yarrabee	2.8	3.0	2.6	2.1	1.9	2.0	2.0	2.0
Middlemount	2.7	2.9	3.7	2.6	2.2	2.7	3.0	3.3
Ashton	2.2	1.8	1.2	0.9	0.4	0.3	0.3	0.3
Total	52.1	51.8	48.5	38.9	43.6	49.5	51.8	53.9
Attributable sales volume (mn tonnes)								
Thermal	30.1	33.2	31.7	24.6	28.4	32.1	33.3	33.9
Metallurgical	5.5	4.2	5.8	4.7	4.7	5.2	5.4	6.0
Total	35.6	37.4	37.5	29.3	33.1	37.3	38.7	39.9
Change (YoY)								
Thermal	6.0%	10.3%	-4.5%	-22.4%	15.4%	12.9%	3.8%	2.0%
Metallurgical	7.8%	-23.6%	38.1%	-19.0%	0.0%	11.1%	3.8%	10.6%
Average	6.3%	5.1%	0.3%	-21.9%	13.0%	12.6%	3.8%	3.2%
ASP (A\$/tonne)								
Thermal	100	76	134	372	211	170	157	152
Metallurgical	167	123	180	405	356	300	280	260
Blended	110	82	141	377	232	188	174	168
ASP change (YoY)								
Thermal	-18.3%	-23.8%	75.4%	177.4%	-43.3%	-19.3%	-7.6%	-3.2%
Metallurgical	-8.8%	-26.3%	46.5%	125.0%	-12.1%	-15.7%	-6.7%	-7.1%
Blended	-16.2%	-26.1%	72.9%	167.3%	-38.5%	-18.8%	-7.4%	-3.5%
Cash operating cost breakdown (A\$/tonne)								
Unit cash operating cost	-73	-67	-77	-131	-121	-110	-107	-104
Change (YoY)	-0.9%	-8.2%	16.2%	69.6%	-8.0%	-8.8%	-3.1%	-2.2%
Unit cash operating cost (excluding government royalties)	-64	-60	-66	-98	-100	-93	-91	-89
Change (YoY)	1.6%	-5.4%	9.5%	48.5%	1.9%	-6.8%	-2.3%	-2.0%

Source: Company data, CMBIGM estimates

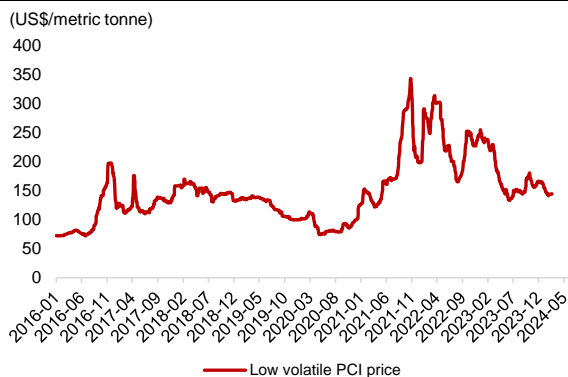
Note: Our unit cost figures are slightly different from the company's due to the difference in transportation cost calculation.

Figure 5: Seaborne semi-soft coking coal (SSCC) price



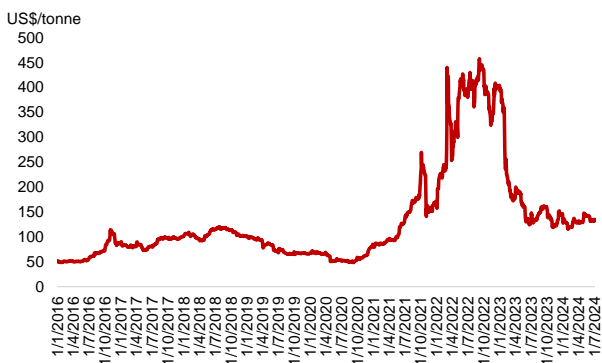
Source: Wind, CMBIGM

Figure 6: Seaborne pulverised coal injection (PCI) price



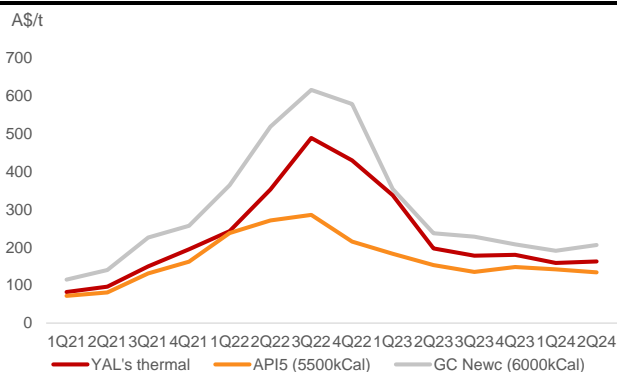
Source: Wind, CMBIGM

Figure 7: GC Newc (6000/kCal) pricing



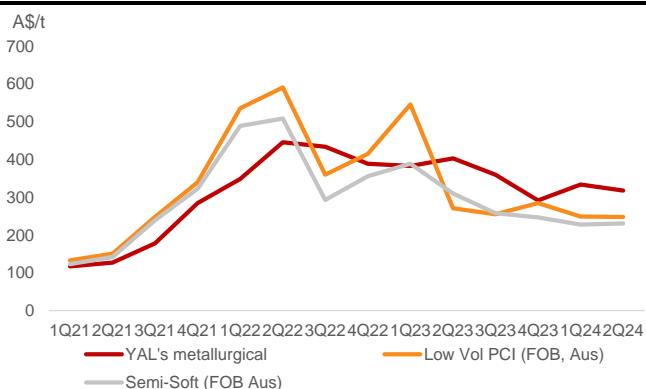
Source: Company data, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 8: YAL's thermal ASP vs benchmarks



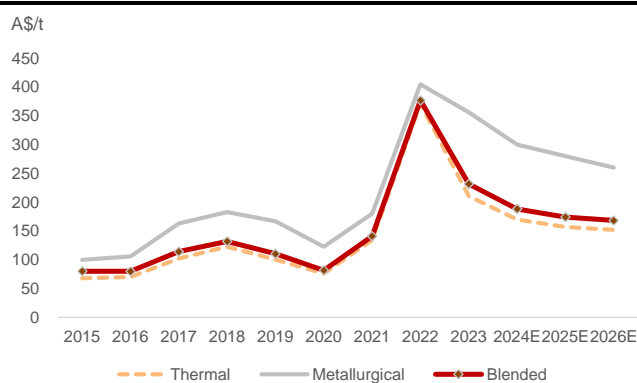
Source: Company data, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 9: YAL's metallurgical ASP vs benchmarks



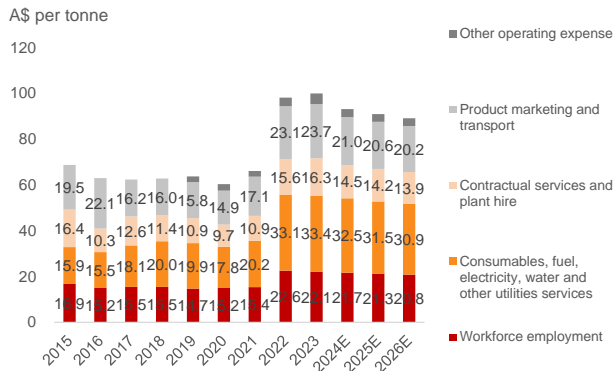
Source: Company data, Argus/McCloskey, GlobalCOAL, CMBIGM

Figure 10: YAL's ASP assumptions



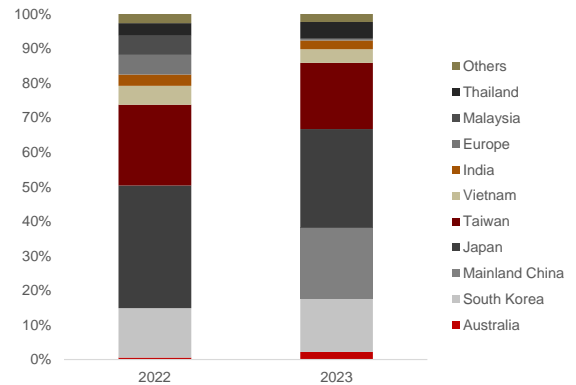
Source: Company data, CMBIGM estimates

Figure 11: YAL's unit cash cost breakdown



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

Figure 12: YAL's revenue breakdown



Source: Company data, CMBIGM

Valuation

Maintain BUY with new TP of HK\$42. We value YAL by net present value (NPV), calculated by the future cash flow of all the reserves based on their effective mine life.

Our key assumptions include:

- Long-term thermal and metallurgical coal price (starting 2027E) of A\$130/t and A\$200/t respectively;
- Long-term unit cash cost inflation of 1% p.a.;
- WACC of 6.7%, based on risk-free rate of 4% (10-year Australian government bond yield), risk premium of 6%, 0.5x beta, and 10% debt/capital ratio;
- AUD/HKD rate of HK\$5.27.

Figure 13: TP sensitivity to coal price

WACC	LT coal thermal coal price (A\$/t)				
	90	110	130	150	170
4.7%	21	34	48	61	75
5.7%	21	33	44	56	68
6.7%	21	31	42	52	63
7.7%	20	30	39	49	58
8.7%	20	29	37	46	54

Note: Assuming LT thermal coal price = A\$130/t

WACC	LT metallurgical coal price (A\$/t)				
	160	180	200	220	240
4.7%	43	45	48	50	53
5.7%	40	42	44	47	49
6.7%	38	40	42	44	46
7.7%	36	38	39	41	43
8.7%	34	36	37	39	40

Note: Assuming LT metallurgical coal price = A\$200/t

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (AUD mn)						
Revenue	5,403	10,548	7,778	7,138	6,893	6,872
Royalties and other related payments	(421)	(967)	(685)	(629)	(607)	(605)
Staff costs	(578)	(662)	(730)	(809)	(823)	(832)
Others	(2,232)	(2,548)	(2,901)	(2,924)	(2,950)	(2,959)
Other income	(36)	(132)	26	36	34	34
EBITDA	2,136	6,239	3,488	2,812	2,548	2,510
Depreciation	(831)	(834)	(881)	(859)	(800)	(750)
EBIT	1,305	5,405	2,607	1,953	1,748	1,760
Interest expense	(259)	(459)	(53)	(8)	(8)	(8)
Others	57	146	29	26	22	14
Pre-tax profit	1,103	5,092	2,583	1,972	1,762	1,766
Income tax	(312)	(1,505)	(764)	(583)	(521)	(522)
After tax profit	791	3,587	1,819	1,389	1,241	1,243
Minority interest	0	0	0	0	0	0
Net profit	791	3,587	1,819	1,389	1,241	1,243

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (AUD mn)						
Current assets	2,531	3,810	2,533	3,797	4,215	5,237
Cash & equivalents	1,495	2,699	1,397	2,759	3,136	4,194
Account receivables	707	736	662	648	598	645
Inventories	264	330	416	337	424	345
Other current assets	65	45	58	53	57	53
Non-current assets	9,269	8,991	8,721	8,575	8,287	8,043
PP&E	3,232	3,486	3,582	3,774	3,761	3,744
Right-of-use assets	5,149	4,642	4,278	3,930	3,646	3,416
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	303	413	431	444	455	462
Intangibles	138	133	131	128	125	122
Other non-current assets	447	317	299	299	299	299
Total assets	11,800	12,801	11,254	12,372	12,501	13,280
Current liabilities	826	2,532	1,048	1,207	1,068	1,225
Short-term borrowings	66	48	44	44	44	44
Account payables	743	863	734	893	754	911
Other current liabilities	17	1,621	270	270	270	270
Non-current liabilities	4,828	2,239	1,764	1,764	1,764	1,764
Long-term borrowings	3,369	625	102	102	102	102
Other non-current liabilities	1,459	1,614	1,662	1,662	1,662	1,662
Total liabilities	5,654	4,771	2,812	2,971	2,832	2,989
Total shareholders equity	6,144	8,028	8,440	9,400	9,667	10,289
Minority interest	2	2	2	2	2	2
Total equity and liabilities	11,800	12,801	11,254	12,372	12,501	13,280

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (AUD mn)						
Operating						
Profit before taxation	1,103	5,092	2,583	1,972	1,762	1,766
Depreciation & amortization	831	834	881	859	800	750
Tax paid	0	0	(2,123)	(583)	(521)	(522)
Change in working capital	(193)	80	(129)	256	(179)	193
Others	332	759	(10)	(107)	(134)	(129)
Net cash from operations	2,073	6,765	1,202	2,397	1,728	2,057
Investing						
Capital expenditure	(268)	(544)	(611)	(700)	(500)	(500)
Acquisition of subsidiaries/ investments	(100)	0	0	0	0	0
Others	69	287	97	102	131	130
Net cash from investing	(299)	(257)	(514)	(598)	(369)	(370)
Financing						
Dividend paid	0	(1,626)	(1,413)	(429)	(973)	(621)
Net borrowings	(494)	(1,320)	(496)	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(447)	(2,465)	(95)	(8)	(8)	(8)
Net cash from financing	(941)	(5,411)	(2,004)	(437)	(981)	(629)
Net change in cash						
Cash at the beginning of the year	637	1,495	2,699	1,397	2,759	3,136
Exchange difference	25	107	14	0	0	0
Cash at the end of the year	1,495	2,699	1,397	2,759	3,136	4,194
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	55.6%	95.2%	(26.3%)	(8.2%)	(3.4%)	(0.3%)
EBITDA	na	192.1%	(44.1%)	(19.4%)	(9.4%)	(1.5%)
EBIT	na	314.3%	(51.8%)	(25.1%)	(10.5%)	0.7%
Net profit	na	353.7%	(49.3%)	(23.7%)	(10.6%)	0.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
EBITDA margin	39.5%	59.1%	44.8%	39.4%	37.0%	36.5%
Return on equity (ROE)	13.9%	50.6%	22.1%	15.6%	13.0%	12.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.3	(0.3)	(0.1)	(0.3)	(0.3)	(0.4)
Current ratio (x)	3.1	1.5	2.4	3.1	3.9	4.3
Receivable turnover days	35.5	25.0	32.8	33.5	33.0	33.0
Inventory turnover days	53.3	47.4	52.2	52.0	52.0	52.0
Payable turnover days	100.8	99.4	87.3	86.0	86.0	86.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	11.6	2.6	5.0	6.6	7.4	7.4
P/B	1.5	1.1	1.1	1.0	0.9	0.9
Div yield (%)	10.1	17.7	10.0	7.6	6.8	6.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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