

Analyst: Kelvin Li

YANZHOU COAL MINING COMPANY LIMITED (兗州煤業)

Sector	: Materials
HKSE Code	: 1171
Market Price	: HK\$12.20 (21/04/2008)
HSI	: 24,721.67 (21/04/2008)
H-share Issued	: 1,958.40 million
H-share Mkt. Cap.	: HK\$23,892 million
52 weeks Hi/Lo	: HK\$17.82/HK\$7.76

Chairman : WANG Xin

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	<u>FY2007</u> RMB million	<u>FY2006</u> RMB million	<u>Change</u>
• Turnover	15,110.5	12,944.0	+16.7%
• Gross profit	7,228.7	5,817.3	+24.3%
• Net profit	3,230.5	2,373.0	+36.1%
	<u>RMB</u>	<u>RMB</u>	
• EPS – basic	0.66	0.48	+37.5%
• DPS – final	0.17	0.12	+41.7%
• DPS – special final	-	0.08	-100.0%
• DPS – total	0.17	0.20	-15.0%

- Yanzhou Coal Mining reported a better-than-expected 36.1% y-o-y rise in net profit to RMB3.23 billion for FY2007, reviving from a sluggish profit growth of 4.8% during the first half, thanks to rising coal prices as well as contributions from Shanxi Neng Hua (Tianchi coal mine) and Yancoal Australia (Austar coal mine).
- Turnover increased 16.7% y-o-y to RMB15.11 billion in FY07. Net sales of coal surged 21.2% y-o-y, as domestic coal sales stayed strong overwhelming a reduced export sales last year. The newly commenced operations – Yancoal Australia Pty (100% owned by Yanzhou Coal and commercial operations commenced since Oct 2006) and Shanxi Neng Hua (100% owned by Yanzhou Coal and commercial coal operations commenced since Nov 2006), contributed net sales revenue of RMB905.2 million in FY07, up a sharp 564.2% y-o-y, accounting for 6.2% (FY06: 1.1%) of the Group's total net sales.
- Cost of sales and transportation totalled RMB7.88 billion, up 10.6% y-o-y. It was mainly driven by higher costs from Yanzhou Australia Pty and Shanxi Neng Hua on full-period operation as well as higher staff costs in the Group's headquarters operations. For FY07, cost of sales in the headquarters rose by 9.0% y-o-y, with its unit cost of sales up 15.2% y-o-y, due to rising wages and staff retirement benefits. Overall, the Group's gross profit rose 24.3% y-o-y to RMB7.23 billion, while the gross profit margin improved by 2.9 percentage points to 47.8% in FY07.
- As of 31/12/2007, the Group had total debt of RMB330 million (31/12/2006: RMB380 million). With cash on hand of RMB5.7 billion, the Group remained at a strong net position of RMB5.4 billion by the end of FY07, compared with a net cash of RMB5.5 billion as at 31/12/2006.

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Business highlights

- Breakdown of net sales (i.e. gross sales net of transportation costs) by segments:

<i>(RMB million)</i>	FY2007	%	FY2006	%	<i>Change</i>
Domestic (headquarters)	12,831.5	88.1%	9,365.9	78.0%	+37.0%
Export (headquarters)	620.2	4.3%	2,344.8	19.5%	-73.6%
Yancoal Australia Pty	661.7	4.5%	114.4	1.0%	+478.3%
Shanxi Neng Hua	243.6	1.7%	21.9	0.2%	+1,013.5%
<i>Net sales of coal</i>	<u>14,356.9</u>	<u>98.6%</u>	<u>11,846.9</u>	<u>98.7%</u>	<u>+21.2%</u>
Railway service income	203.7	1.4%	160.4	1.3%	+27.0%
Total net sales	<u>14,560.6</u>	<u>100.0%</u>	<u>12,007.3</u>	<u>100.0%</u>	<u>+21.3%</u>

- Breakdown of sales volume of coal by products:

<i>('000 tonnes)</i>	FY2007	%	FY2006	%	<i>Change</i>
Clean coal No.1	712.9	2.0%	869.3	2.5%	-18.0%
Clean coal No.2	7,260.0	20.7%	5,566.3	16.1%	+30.4%
Clean coal No.3	8,616.2	24.5%	12,129.7	35.0%	-29.0%
Clean coal – lump coal	693.0	2.0%	555.4	1.6%	+24.8%
Screened raw coal	11,357.5	32.4%	10,826.4	31.2%	+4.9%
Mixed coal and others	3,850.7	11.0%	4,383.1	12.6%	-12.1%
<i>Subtotal for the Headquarters</i>	<u>32,490.3</u>	<u>92.5%</u>	<u>34,330.2</u>	<u>99.0%</u>	<u>-5.4%</u>
Yancoal Australia Pty	1,422.6	4.1%	192.4	0.6%	+639.4%
Shanxi Neng Hua	1,193.2	3.4%	140.9	0.4%	+746.8%
Total sales volume	<u>35,106.1</u>	<u>100.0%</u>	<u>34,663.5</u>	<u>100.0%</u>	<u>+1.3%</u>

- Yanzhou Coal's coal output and sales were barely changed in FY07. It produced 35.64 million tonnes of raw coal and sold 35.11 million tonnes of coal, down 1.1% and up 1.3%, respectively. Sales volume of the Group's six headquarters mines in the PRC amounted to 32.49 million tonnes, down 5.4% y-o-y. In fact, it was due to a 71.7% fall in coal exports to 1.74 million tonnes last year, as the Group retained more coal for the domestic market amid tight supply as well as a cut in export tax rebate since 2H06. Both Yancoal Australia Pty and Shanxi Neng Hua reported robust growth in sales volume in FY07, mainly lifted by the impact of full-period operation.
- In terms of pricing, better performance was seen in the domestic market due to strong demand and tight supply on transportation bottleneck. The average selling price (ASP) of Yanzhou Coal's clean coal rose 25.6% y-o-y to RMB520.60/tonne, with the domestic ASP up 25.3% y-o-y to RMB538.88/t and the export ASP down 6.6% to RMB356.98/t. For Shanxi Neng Hua, its coal's ASP stood at RMB204.13/t, up 31.5% y-o-y, while that of Yancoal Australia Pty dropped 21.8% to RMB465.10/t.

Outlook & Prospects

- Methanol operations – a new growth driver** The methanol projects of Shanxi Neng Hua (annual capacity: 100,000 tonnes) and Yulin Neng Hua (600,000 tonnes) are expected to commence commercial operations in 2Q08 and 2H08, respectively. The projects would bring new growth momentum, but the profit contributions in FY08 should be limited due to high upfront operating costs.
- Conservative FY08 sales target on lower exports** The Group plans to sell 34.4 million tonnes of coal this year, down 2% from FY07, following its plan of cutting the export volume sharply to 500,000 tonnes in FY08 from 1.74 million tonnes last year amid better profit margin in the domestic market.
- Strong ASP growth in 2008** Despite a 2% decline in sales plan, the Group's bottom-line growth should stay sound this year amid better selling prices. Yanzhou Coal has reached 9.51 million tonnes of coal sales contract so far in Q1 2008, with the average net contract price up a sharp 38% from a year earlier. In fact, Yanzhou Coal also reduced the portion of contract sales, in order to ride on the expected strong spot market in 2008.
- A better proxy to rising domestic coal prices** Yanzhou Coal's FY08 result beat forecast, mainly due to better-than-expected selling prices achieved last year. Despite rising cost pressure on higher wages and maintenance expenses, Yanzhou Coal's bottom line is believed to stay strong in 2008 amid solid coal prices and contribution from newly commenced operations. Trading at an undemanding 13x FY08E P/E, we give the counter a "HOLD" recommendation accordingly.

Recommendation: HOLD

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