



HD Moody's: Yancoal's operational improvements are credit positive for Yanzhou

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Moody's Investors Service says that Yancoal Australia Ltd's (unrated) positive operational performance is credit positive, but has no immediate impact on Yanzhou **Coal Mining** Co. Ltd's Ba1 corporate family and senior unsecured debt ratings and their stable outlook.

On 16 January 2014, Yancoal Australia, a 78% owned subsidiary of Yanzhou **Coal**, announced that its total annual **coal** production volume reached 16.9 **million** tons in 2013, up 15% year-on-year from 14.6 tons in 2012. At the same time, its total **coal** sales volume grew 14% year-on-year to 17 **million** tons.

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"Yancoal Australia's improved **coal** production and sales volumes for 2013 indicate that it is effectively managing its operational challenges and that it is in a better position than in 1H 2013 to turn around its losses, which is credit positive and in line with Moody's expectations" says Alan Gao, a Moody's Vice President and Senior Analyst.

Moody's expects Yancoal Australia's improvement can be sustained and will result in positive profit contribution in 2014.

"Moreover, Yancoal Australia's improved cost saving is credit positive" says Gao, who is also the **lead** analyst for Yanzhou **Coal**.

Yancoal Australia disclosed that it had achieved its 15% unit production cost savings target in 2013. Moody's estimates that Yancoal Australia's average unit gross profit in 4Q 2013 will be similar to that in 3Q 2013 at around RMB140-150 per tonne, which has improved from RMB132 per tonne in 1H 2013.

Moody's estimates that Yancoal Australia will represent 28% of Yanzhou **Coal**'s total **coal** production in 2013. The improved volume and cost savings will have some, but not a significant positive impact on Yanzhou **Coal**'s financial position.

Moody's has factored in the improvements in the Ba1 rating, and expects its debt/EBITDA to trend down to around 4.5X in 2014 from 5x-5.5x for 2013, and its (cash flow from **operations** -- dividends)/debt to reach 10%-15% over the next 12 to 18 months.

The principal methodology used in this rating was the Global **Mining** Industry published in May 2009. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Yanzhou **Coal Mining Company** Limited was listed in Shanghai, **Hong Kong** and New York in 1998. It is 53% owned by the Yankuang Group, a state-owned enterprise wholly owned by the Shandong Provincial State-Owned Assets Supervision and Administration Commission, and is one of the top **coal mining** groups in **China**.

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CO yaptl : Yancoal Australia Limited | ynzmn : Yanzhou Coal Mining Co Ltd | yankua : Yankuang (Group) Corp

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