



**HD** Moody's: Yanzhou **Coal**'s letter of debt support to Yancoal Australia, if approved, is credit negative

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**LP**

Moody's Investors Service says that Yanzhou **Coal Mining** Co. Ltd's letter of debt support to Yancoal Australia Ltd (unrated) , if approved by shareholders, is credit negative but has no immediate impact on Yanzhou **Coal**'s Ba2 corporate family rating and negative outlook.

On 9th November, Yanzhou **Coal** announced its proposal to subscribe to around USD1.8 **billion** of convertible hybrid **bonds** to be issued by its 78%-owned subsidiary, Yancoal Australia. Yancoal Australia plans to issue a total amount of USD2.3 **billion** under its proposed rights offer, with the remaining USD507 **million** to be offered to its minority shareholders -- Noble Group (Baa3 stable) (13.2%) and public shareholders (8.8%).

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"If Noble and other shareholder's subscribe to the convertible **bonds**, it will boost Yancoal Australia's liquidity but also modestly increase Yanzhou **Coal**'s gross debt leverage," says Simon Wong, a Moody's Vice President and Senior Credit Officer/Manager.

Yancoal Australia plans to use the proceeds of the convertible **bonds** to repay its USD1.8 **billion** shareholder loan to Yanzhou **Coal**. It will use the remaining proceeds to fund its existing **operations** and future growth.

"The proposed letter of debt support to Yancoal Australia is credit negative, as it could substantially reduce Yanzhou **Coal**'s liquidity. However, its rating and the negative outlook already incorporate the possibility of such financial support," adds Wong.

Yanzhou **Coal** also proposed to provide a 10 year debt facility of up to AUD1.4 **billion** (about USD1.2 **billion**) to Yancoal Australia for the purpose of general corporate funding. Under the letter of debt support, Yanzhou **Coal** also proposes to provide additional financial support to fund the interest on the convertible hybrid **bonds** over a five-year period up to an amount of AUD807 **million** (about USD694 **million**).

As of end-September Yanzhou **Coal**'s had a cash balance of USD4 **billion**, including term deposits. Its cash balance would be reduced substantially if the facilities are fully drawn.

The subscription and letter of debt support are subject to approval from Yanzhou **Coal**'s shareholders at the next extraordinary general meeting of shareholders. The subscription letter and the letter of support will be dispatched to the shareholders on or before 26 November 2014.

The negative outlook continues to reflect the ongoing operating losses and financial risks from Yanzhou **Coal**'s ongoing expansion in Australia. Resolution of the weak credit metrics of Yancoal Australia has been hampered by the slow pace of ramp-up in production, due to soft demand and weak **coal** prices.

Downward rating pressure could emerge if Yanzhou **Coal** (1) fails to reduce its debt leverage; (2) fails to turn around its Australian **operations**; (3) experiences a material disruption in its **operations** due to non-compliance with **mining** regulations; or (4) experiences persistent negative free cash flows and its liquidity weakens.

Indicators for downward rating pressure include its cash balance falling below 5% of total assets; adjusted net debt/EBITDA continuously exceeding 5.5x; or EBIT/ interest below 2.0x.

If the Shandong provincial government's indirect ownership through the Yankuang Group drops to below 50%, this could also be negative for Yanzhou **Coal**'s ratings.

The principal methodology used in this rating was Global **Mining** Industry published in August 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Yanzhou **Coal** Co Ltd listed in Shanghai, **Hong Kong** and New York in 1998. It is 56.52%-owned by the Yankuang Group (unrated) , a state-owned enterprise that is wholly owned by the Shandong Provincial State-Owned Assets Supervision and Administration Commission.

Yanzhou **Coal** is one of the top **coal mining** groups in **China**. As of 31 December 2013, Yanzhou owned and operated 20 **coal** mines across **China** and Australia.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

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