REUTERS

HD **UPDATE 3-China's Yanzhou Coal drops plan to buy out Australian unit**

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* Yanzhou says to reconsider deal when conditions right

* Yanzhou was under pressure to improve its offer

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* Noble Group holds more than half of the minority shares

* Yanzhou says China's coal prices to remain weak

* Yancoal shares tumble 9.4 pct in Sydney (Adds comments from Yanzhou's CFO, coal price outlook)

By Maggie Lu Yueyang and Fayen Wong

SYDNEY/SHANGHAI, March 24 (Reuters) - China's Yanzhou Coal Mining Co Ltd has ditched a plan to buy out the minority shareholders of its Australian arm, sending shares of the Sydney-listed unit diving and boding ill for an industry that has been trying to get back on its feet.

Last July, state-backed Yanzhou offered to buy the 22 percent it does not own in Yancoal Australia Ltd for A$0.91 a share, valuing the unit at A$905 million ($823 million).

A few months later, the bid cleared foreign investment regulatory hurdles, reflecting the Australian government's desire to protect assets and jobs in an industry that has been whipped by weakening coal prices.

Yanzhou's decision to drop the offer comes after the company reported last week that its 2013 net profit tumbled nearly 80 percent from a year earlier, weighed down by falling coal prices and a depreciation in the Australian dollar.

Yanzhou, which owns 78 percent of Yancoal Australia, was also under pressure from Singapore commodity trader Noble Group Ltd to improve the offer, Reuters previously reported.

Hong Kong-based Noble owns more than half of the minority shares and could block the deal from going ahead, Reuters reported in October.

"We will do it when conditions are ripe. Under the current market conditions, a privatisation does not work well for minority shareholders," Wu Yuxiang, director and chief financial officer of Yanzhou told reporters at the firm's results briefing.

Analysts said rising production costs and poor profits had also weakened Yanzhou's balance sheet, with the firm's gross debt-to-equity gearing reaching 137 percent in 2013, up from 90 percent the year before.

"Going forward, cost control remains ... the key task for Yanzhou Coal to stay above break-even amid a weak coal price outlook," said Shanghai-based Helen Lau, a senior mining analyst at UOB-Kay Hian.

Yanzhou Chairman Li Xiyong said Yanzhou was focused on slashing costs in 2014, after having already cut 5,400 contractors last year that resulted in cost savings of 600 million yuan ($96.39 million). Yanzhou plans to cut another 3,000-5,000 contractors this year.

China's coal prices are expected to remain soft this year and fluctuate at low levels, with cheaper imports remaining a threat, Li said.

Local steam coal prices fell 16 percent last year on the back of an economic slowdown and change in the national energy strategy to cut coal consumption. After a brief rebound late last year, prices have been on a steady decline since January to hover around 553 yuan a tonne.

Yancoal shares, which dropped 24 percent last year, ended down 9.4 percent at A$0.55. The stock fell as much as 14.1 percent following the announcement. The benchmark Australian share index closed up 0.2 percent.

Yanzhou's shares climbed 2.8 percent in Shanghai, versus a 0.9 percent gain on the Shanghai Composite Index.

($1 = 6.2250 Chinese Yuan)

($1 = 1.1002 Australian dollars) (Additional reporting by Denny Thomas and Charlie Zhu in HONG KONG; Editing by Stephen Coates, Ryan Woo and Mark Potter)

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

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