

Company Flash

Up Energy Development 0307 HK

Hoping to turn around in FY03/15

- *Since Up Energy Development will soon enter its blackout period for their interim result announcement, we met with the company earlier this month to get the most updated information regarding its recent operations and business performance*
- *With the commencement of production of the 3 mines, the company is expected to break even in FY03/16 with profit starting from FY03/17*
- *The company also has downstream projects which are expected to have synergy effects with its upstream mining business*

Mining of coking coal in Xinjiang. Up Energy Development, previously known as Tidetime, is mainly engaged in the mining of coking coal in Xinjiang Province. Currently the company has 4 coal mines in the province, namely, Xiaohuangshan Mine, Shizhuanggou Mine, Quanshuigou Mine, and Baicheng Mine. While the first 3 mines were acquired in 2011 and are still in their pre-production processes, the Baicheng Mine was acquired in 2013 and is already in its production stages. These four mines, as indicated by the technical report, cumulatively command a total resource of 534.0m tonnes and total reserves of 152.0m tonnes, respectively (See Figure 4). Also, according to the management, the upgrade in yearly production capacity of Baicheng Mine from 0.21m tonnes to 0.9m tonnes per year has already been approved by the related authorities, thereby increasing total production capacity of the 4 mines to 5.4m tonnes per year (See Figure 3).

Looking to turn around in FY03/16. The management expects that the 4 coal mines will all be under production by the end of 2015, in which the company will see substantial growth in both revenue and profit. Total production of the mines is expected to be 0.8m tonnes and 2.0m tons in 2014 and 2015 respectively. With the commencement of production of the 3 mines, it is expected that the company will see a gradual improvement on its performance in subsequent years. The management reveals the company may continue to record a loss in FY03/15, but will look to breakeven in FY03/16 with profit starting from FY03/17, assuming that production of the coal mines can commence according to schedule.

Downstream projects are complement to its upstream business. Apart from the upstream projects, the company also has downstream industrial projects, which include raw coal washing, coal coking, and water recycling businesses. We are positive to those projects as they have synergy effects with its upstream business, which can either increase the selling price of the coal products or reduce the cost of production. For example, after coking coal is converted into coke by washing and coking raw coal, the coke can then be sold to steel producers directly at a price of ~RMB600.0 per ton, which is ~50% higher than the price of unprocessed coking coal. Also, the company's water recycling project provides a cheaper source of water for washing the coal, with the cost of processing water being RMB2.4 per square meter, ~40% less than the cost of water purchased from 3rd parties.

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Stock Data (307 HK)

Rating	Not Rated
Price (HK\$)	0.93
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.4-1.17
Market cap. (HK\$m)	3,468.6
Daily t/o (HK\$m)	18.5
Free float (%)	37.2

Source: Bloomberg

Figure 1: Financials and valuation

	FY03/12	FY03/13	FY03/14
Total revenue (HKD m)	0.0	0.0	152.8
PBT (HKD m)	(97.7)	(59.3)	(134.6)
Net profit (HKD m)	(101.3)	(60.4)	(123.6)
Basic EPS (HK cents)	(9.8)	(3.0)	(3.6)
P/B (x)	0.5	0.4	0.4
P/E (x)	-	-	-

Source: Company data

Please refer to important disclosures at the end of this report

Figure 2. Geographical locations of the four mines



Source: Company data

Figure 3. Major information of the mines

Mine	Area (km square)	Production capacity (m tonnes/year)	Mining period (years)	Expected production time
Xiaohuangshan	2.18	2.40	13.60	Q4 2014
Shizhuanggou	7.16	1.05	28.10	Q2 2015
Quanshuigou	6.61	1.05	25.30	Q2 2015
Baicheng	5.92	0.90	46.00	Under production

Source: Company data

Figure 4. Resources and reserve of the mines

Mine	Resources (m tonnes)	Reserve (m tonnes)	Potential reserve (m tonnes)
Xiaohuangshan	119	26	-
Shizhuanggou	142	24	25
Quanshuigou	147	21	27
Baicheng	126	81	-
Total	534	152	52

Source: Company data

Major risks include: i) delay of coking mine production; ii) decrease in demand of coking mine in Xinjiang; iii) downward pressure on selling price of coking mine; iv) increase of mining costs; v) potential new entrants; vi) conversion of CB which has dilutive effects on existing shareholders.

Figure 5. Peer comparison

Company	Ticker	Mkt Cap (HKD m)	3M avg turnover (HKD m)	2013 P/E (x)	P/book (x)	ROE (%)	ROA (%)	Net Debt/Total Equity
Up Energy Development	307 HK	3,468.6	18.7	n.a.	0.4	(1.6)	(0.5)	51.1
Shougang Fushan Resources	639 HK	9,702.4	22.3	28.4	0.5	1.8	1.3	(23.1)
Hidili Industry International Development	1393 HK	1,861.5	3.1	n.a.	0.2	(17.1)	(6.8)	96.3
Mongolian Mining	975 HK	3,297.5	6.7	n.a.	0.9	(10.5)	(3.1)	163.1
Winsway Enterprises	1733 HK	1,490.4	3.2	2.7	1.2	(122.3)	(20.8)	79.8
China Qinfa	866 HK	800.2	0.8	n.a.	0.3	(26.8)	(3.1)	232.3
Average		3,436.8	9.1	15.6	0.6	(29.4)	(5.5)	99.9

Source: Company data

Figure 6. Per share items

	FY03/12	FY03/13	FY03/14
EPS (HK cents)			
- Basic (HK cents)	-9.8	-3.0	-3.6
BVPS (HKD)	3.8	2.4	2.2

Source: Company data

Figure 7. Income statement (HKD m)

	FY03/12	FY03/13	FY03/14
Revenue	0.0	0.0	152.8
Cost of sales	0.0	0.0	(164.3)
Gross profit	0.0	0.0	(11.5)
Administrative expenses	(85.2)	(70.6)	(88.2)
Other income/(loss)	4.0	9.4	19.2
Loss from operations	(81.1)	(61.2)	(80.5)
Finance (cost)/income	(16.6)	1.9	(54.0)
Profit before tax	(97.7)	(59.3)	(134.6)
Income tax	(3.6)	(1.1)	11.0
Net profit	(101.3)	(60.4)	(123.6)
Net profit attributable to shareholders	(91.4)	(47.8)	(98.6)

Source: Company data

Figure 8. Cash flow statement (HKD m)

	FY03/12	FY03/13	FY03/14
Net cash from operating activities	(54.5)	(69.7)	(116.0)
Net cash used in investing activities	(343.2)	(554.7)	(1,167.3)
Net cash used in financing activities	(62.1)	705.0	422.9
Net increase in cash and cash equivalents	(459.9)	80.7	(860.4)
Cash and cash equivalents at beginning of year	1,257.5	801.0	881.9
Effect of exchange rate changes on cash and cash equivalents	3.4	0.2	2.4
Cash and cash equivalents at end of year	801.0	881.9	24.0

Source: Company data

Figure 9. Balance sheet (HKD m)

	FY03/12	FY03/13	FY03/14
Non-current assets			
PPE	14,803.4	15,547.6	18,824.7
Prepaid land lease payments	68.6	66.2	75.0
Others	11.0	243.3	182.2
Total non-current assets	14,882.9	15,857.1	19,081.9
Current assets			
Inventories	5.7	0.3	110.1
Prepayments, deposits and other receivables	61.5	56.6	107.5
Cash and cash equivalents	801.0	881.9	24.0
Other	8.0	35.3	118.9
Total current assets	876.2	974.1	360.4
Current liabilities			
Interest-bearing bank borrowings	0.0	0.0	(370.6)
Other payables and accruals	(118.1)	(202.1)	(383.5)
Others	(9.0)	(134.7)	(368.8)
Total current liabilities	(127.08)	(336.8)	(1,123.0)
Non-current liabilities			
Convertible notes	(4,698.9)	(4,108.3)	(4,213.2)
Deferred tax liabilities	(3,430.8)	(3,429.8)	(3,918.9)
Others	0.0	(229.6)	(880.9)
Total non-current liabilities	(8,129.7)	(7,767.6)	(9,013.0)
Net assets	7,502.3	8,726.8	9,306.3
Equity	7,502.3	8,726.8	9,306.3

Source: Company data

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