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**Extract from original:**

## **High-Dividend-Yield Kinetic M&E to Become Investors’ “New Darling” amid Rising Sentiment of Risk Evasion**

*Finet, 23 August 2019*

**Introduction:**

Affected by the escalating China-US trade tensions, the uncertainty underlying the Brexit and the geopolitical turmoil, investors are showing sharply rising sentiment of risk evasion in the secondary markets in Asia-Pacific region, and the shares with stable operating results and high dividend yields have become the ideal choice of the investors to optimize their investment portfolios. As for the A-share market in China, investors are chasing after the coal enterprises with low valuation and long-existing high dividend yields. As for the capital market in Hong Kong, there is only one coal enterprise with low valuation, outstanding operating results and high dividend yields, namely Kinetic M&E (01277-HK).

**A coal enterprise covering the whole industrial chain**

Speaking of Kinetic M&E, domestic investors may not be familiar with this name mainly because of the fact that it is a small-to-medium-sized domestic coal enterprise and listed in Hong Kong Stock Exchange. Despite the less fame compared with large coal enterprises such as China Shenhua, Yanzhou Coal Mining and Shaanxi Coal Industry, Kinetic M&E is one of the few domestic coal enterprises with full coverage on industrial chain.

At present, Kinetic M&E is an integrated coal producer and operator with business activities covering the whole coal industry chain, i.e. from coal production and washing to coal loading and transportation, and eventually to coal trading.

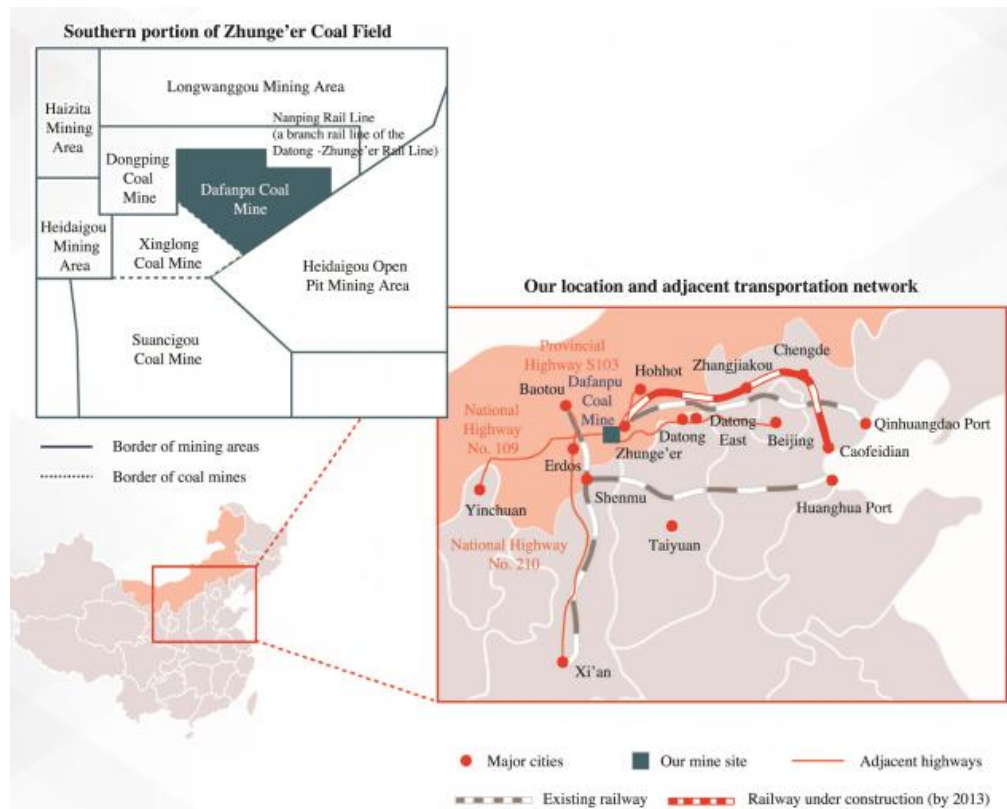
**In terms of coal production,** Kinetic M&E focuses on the development of

its underground mine - the Dafanpu Coal Mine, which is situated in Jungar Banner in Erdos City, Inner Mongolia, a quality coal mining area in China. The Dafanpu Coal Mine has a mining area of approximately 9.6 square kilometers with approximately 449.9 million metric tons of coal resources that meet the JORC standards, including 145.6 million metric tons of measured coal resources, 247.7 million metric tons of indicated coal resources and 56.6 million metric tons of inferred coal resources.



**In terms of coal washing,** Kinetic M&E owns a coal washing plant with an annual processing capacity of 500 million metric tons and capable of washing raw coal for the production of various coal products.

**In terms of coal loading and transportation,** Kinetic M&E transports self-produced or externally purchased coal products via Nanping Rail Line and Daqin Rail Line to Qinhuangdao through Xiaojia Loading Station, in which it holds 45% equity interest, and associated rail spur lines, to expand the coal trading business in Qinhuangdao. The average processing capacity of Xiaojia Loading Station per hour is up to 5,000 tons.



**Geographical Locations of Kinetic M&E's Mining Areas and Its Transportation Network**  
 (Source: Company Website)

In addition, Kinetic M&E has established coal trading presence in the coal trading center in Qinhuangdao, which enables it to transport the coal products from the Dafanpu Coal Mine to the coal trading center in Qinhuangdao by rail through the Xiaojia Loading Station and associated rail spur lines, thus not only improving the efficiency of its trading business but also reducing costs. This is an advantage cannot be replicated by other coal enterprises, and has laid a solid foundation for Kinetic M&E to achieve a quality growth in operating results.

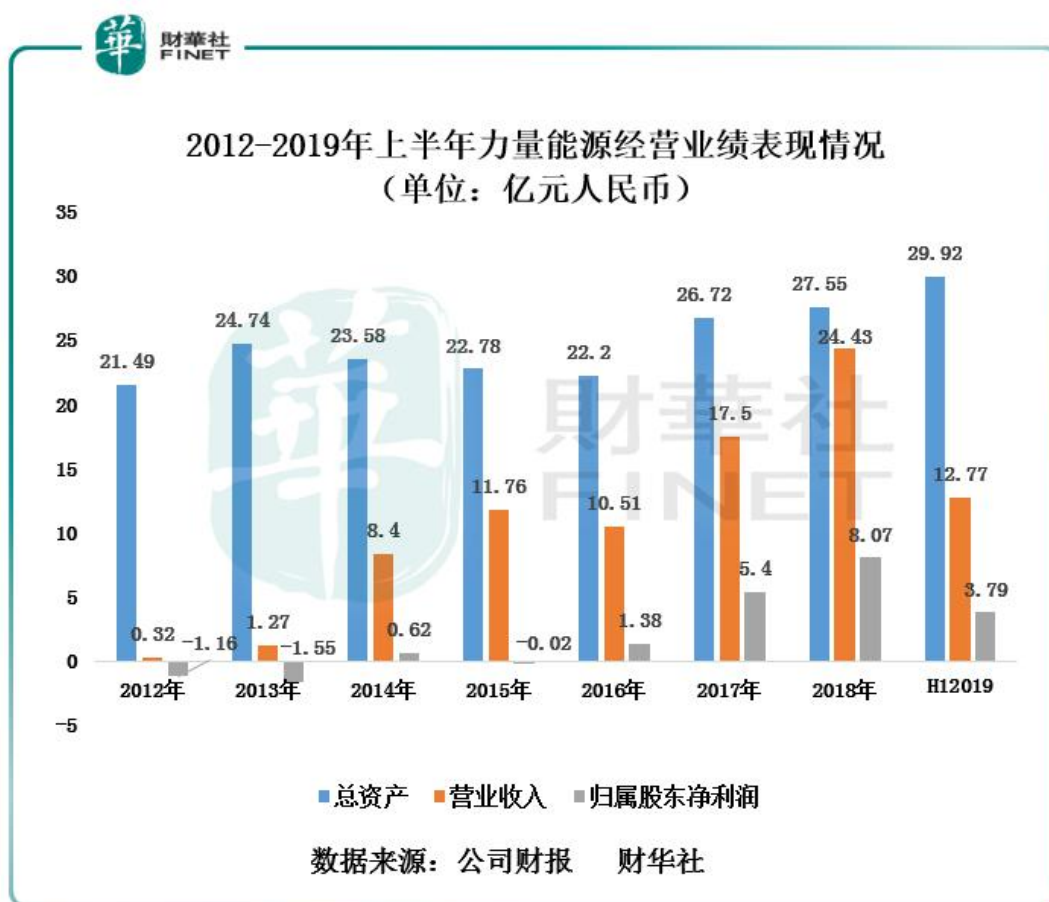
**Operating results continuing to improve with Dafanpu Coal Mine commencing production**

We shall analyze the continuous improvement of Kinetic M&E's operating results from three time points:

The first time point is the investment period of the Dafanpu Coal Mine. In the development of the Dafanpu Coal Mine in early years, this mine was

constructed according to the highest national standards on safety and efficiency, which had caused the company to incur additional capital expenditures and maintain a loss-making position throughout the investment and construction period.

The second time point is the end of 2012 when the Dafanpu Coal Mine commenced production, after which, Kinetic M&E began to record several-fold growth in business income, with its business income surging from RMB31.68 million in 2012 to RMB840 million in 2014, and its net profit changing from a loss of RMB116 million to a profit of RMB62 million, thus generating driving forces for the growth in operating results.



(Legends replace with below:

Operating Results of Kinetic M&E from 2012 to the First Half of 2019 (Unit: RMB in Hundred Million)							
2012	2013	2014	2015	2016	2017	2018	H12019
Total Assets			Business income		Net Profit Attributable to Shareholders		
Source: Kinetic's Financial Reports, Finet							

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The third time point is 2014 when the No.6 seam with the highest grade among the seams of the company commenced production, other quality thermal coal products were launched into the market in succession, and various developed links along the industrial chain began to take effect, which enabled the company to record a per-ton coal production cost far below the industry average, making Kinetic M&E one of the most profitable coal enterprises in China.

As of the end of 2018, the net profit of the company increased from RMB62 million in 2014 to RMB807 million in 2018, representing a high CAGR of 89.94%, which basically constitutes a qualitative leap forward.

It is noteworthy that Kinetic M&E is likely to achieve another promising growth in its results this year. As of 30 June 2019, the business income of Kinetic M&E amounted to RMB1.277 billion, representing a year-on-year increase of 11%. If calculated based on the growth rate of the business income in the first half of the year, the annual business income will hit a record high without doubt.

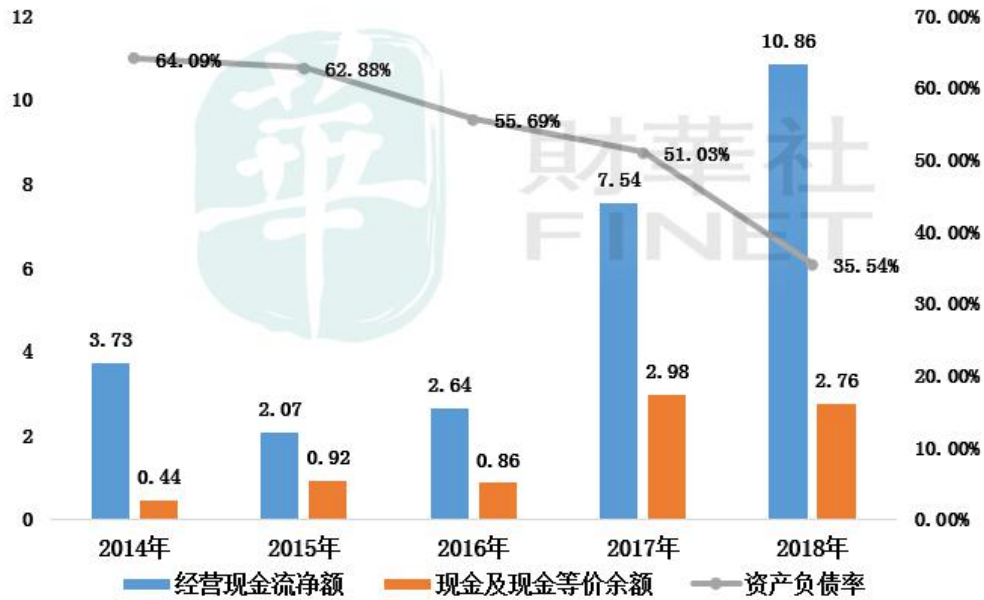
In addition, against the backdrop of the downward coal prices in the first half of the year, Kinetic M&E managed to show a stronger profitability than the industry peers on average. As of 30 June 2019, Kinetic M&E recorded a gross profit margin of 39.5%, higher than the industry average of approximately 26.71% in the first half of the year, and a net profit margin of 29.7%, also higher than the industry average of approximately 23% in the first half of the year. The stronger profitability compared with industry average is mainly attributable to the ultra-high standards and positioning Kinetic M&E set for the Dafanpu Coal Mine during the investment and construction period in early years. In the very words of Gu Jianhua, executive director and chief executive officer of the company, "Kinetic M&E's ability to maintain quality growth lies in our high standards and requirements for self-produced coal and adequate preparations against various problems such as the safety of mining areas, as well as the company's optimization of industrial chain and advantages cost-wise."

## **High-quality development bringing robust cash flows and generous dividends**

Kinetic M&E has always been operating steadily without aimless expansion, and generated robust cash flows and profits in the existing coal market. As of the end of 2018, the net operating cash flows of the company increased from RMB373 million in 2014 to RMB1,086 million in 2018, and the company managed to maintain a positive net operating cash inflow in general, reflecting the gradual improvement of the company's operating quality. In addition, the cash on hand of the company, i.e. the balance of cash and cash equivalents as at the end of the period, increased from RMB44.0 million in 2014 to RMB254.5 million in the first half of 2019, reflecting that the company has sufficient cash on hand at present.

With the improving operating quality, the company's solvency has been continuously strengthened. As of 30 June 2019, the gearing ratio of the company declined from 64.09% in 2014 to 35.50% in the first half of 2019, far below the industry average of 49%. If calculated by dividing the net liability by the sum of capital and net liability, the gearing ratio of Kinetic M&E was only 13.2% in the first half of 2019, a relatively low level among industry peers.

2014-2018年力量能源现金流及资产负债率表现情况  
 (单位: 亿元人民币)



数据来源: 公司财报 财华社

(Legends replace with below:

Cash Flows and Gearing Ratios of Kinetic M&E from 2014 to 2018 (Unit: RMB in Hundred Million)							
	2014		2015		2016	2017	2018
	Net operating cash flows		Balance of cash and cash equivalents		Gearing ratio		
Source: Kinetic's Financial Reports, Finet							

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With operating results maintaining steadily on the upward trend, Kinetic M&E has been relatively generous on dividend payout. As of the end of 2018, the dividend payout of company per share increased from HK\$0.02 in 2016 to HK\$0.03 in 2018. Based on the company's interim dividend of HK\$0.015 per share for the first half of 2019, the dividend payment for the year is likely to maintain at HK\$0.03 per share.

With the dividend policy becoming gradually stable, the company's dividend yield keeps standing above 10%. If translated based on the annual dividend of HK\$0.03 per share and the total annual dividend payout of HK\$0.045 per share in 2018, Kinetic M&E's EPS ratio was 10.47%, higher than the average EPS ratio of 8.05% in the industry, the average EPS ratio of 3.91% of the constituent shares to Hang Seng Index and the average EPS ratio of 5.36% of all the listed shares in Hong Kong.

In addition, Kinetic M&E's advantage in valuation is also significant. As of the end of trading hours on 22 August 2019, Kinetic M&E's shares closed at HK\$0.430, with a PE ratio (TTM) of 4.10 times, below the industry average (in terms of listed coal enterprises in Hong Kong) of 5.79 times, and a PB ratio (MRQ) of 1.79 times, below the industry average (in terms of listed coal enterprises in Hong Kong) of 13.36 times. As can be seen from an intuitive perspective, Kinetic M&E, with such high profitability, has been undervalued without doubt.

### **Conclusion:**

"Currently," said Ju Wenzhong, managing vice president of Kinetic M&E, after the press conference for the release of 2019 interim results, "Kinetic M&E possesses a number of inherent advantages, including ideal geographical locations (Qinhuangdao Port and Daqin Rail Line), perfect links along the industrial chain and quality low-sulphur coal, which all provide guarantees for the stable growth of the company's operating results and the shareholders' interests in the future."

Apparently, Kinetic M&E has waved goodbye to the period of substantial capital expenditures in early years, has begun to see emerging synergies among all parts of current businesses, and is expected to usher in a stage of stable development with highly foreseeable profits in the future.

Against the backdrop of volatile market conditions and continuously rising sentiment of risk evasion, Kinetic M&E, by virtue of the advantages such as highly foreseeable profits, high dividend yields and undervalued share prices, is bound to become a "new darling" to the investors in secondary markets for long-term investment.