



Dec. 09, 2014  
Company Report  
Rating: HOLD  
TP: HK\$ 4.67

H-Share price (HK\$)	5.17
Est. share price return	-9.67%
Est. dividend yield	1.97%
Est. total return	-7.70%

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**Key Data**

52Wk H/L(HK\$)	5.44/3.72
Issued shares (mn)	13,259
H-Shares (mn)	4,107
A-Shares (mn)	9,152
Market cap	
H-shares (HK\$ mn)	21,233
A-Shares (HK\$ mn)	55,278
3-mth avg daily turnover (HK\$ mn)	114
Major shareholder(s) (%):	
China Coal Group Corp Ltd	57.36

Source(s): Company, Bloomberg, ABCI Securities

**FY13 Revenue breakdown (%)**

Coal	83.3
Coke and coal-chemical product	4.9
Machinery	8.3
Others	3.4

Source(s): Company, ABCI Securities

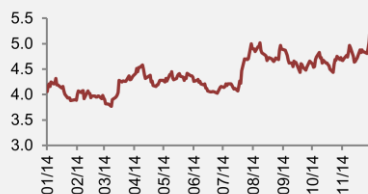
**Share performance (%)**

	Absolute	Relative*
1-mth	10.00	(2.97)
3-mth	6.16	1.79
6-mth	20.79	6.38

\*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

China Coal (1898 HK)  
Effective cost control; maintain HOLD

- China coal increased its spot coal prices again by RMB12/ton~ RMB15/ton in Dec. We believe the price increase will benefit its FY15 long-term contract negotiation with IPPs and boost its revenue in the coming months
- China has taken steps to slash coal output and eliminate small or illegal players. Management expect the Group's ASP to increase by end-FY14
- Long-term demand for coal is still solid. The Group's counter's effective cost control and reduction of unprofitable projects will help support margins
- Maintain **HOLD** r with TP HK\$ 4.67, reflecting 0.54x P/B and 16x P/E based on our FY15E estimates

**Raised price twice in 2 months.** China Coal increased its coal prices by RMB 12/ton~RMB15/ton in Dec after a similar price increase (RMB11/ton~RMB15/ton) in Nov. We expect the spot price increase will benefit its FY15 long-term contract negotiation with China's IPPs,. Besides, the price rise will also drive up the Group's 4Q14 revenue.

**Overall output cut is positive to large coal producers.** Coal producers are required to reduce output while local governments are asked to shut down small (with output capacity between 30k~300k/yr) and illegal coal mines. These would help alleviate the oversupply problem and support coal prices, benefiting the large suppliers. China plans to shut 2,000 redundant coal mines by the end-FY15. Management are optimistic on the ASP prospect in the coming months.

**Coal spot prices to stabilize in FY15.** Besides the reduced output we believe Yitai Coal (3948 HK), China Shenhua (1088 HK) and China Coal have decided to cease price war in the near term. This will stabilize thermal coal prices in northern China. Both Bohai-Rim thermal coal prices index and mine-mouth coal prices in Inner Mongolia have regained support in recent weeks. Besides, China's move to reduce interest rate to lower financing costs for private firms will also support commodity prices in the near future.

**Long-term demand is still solid.** Coal demand is unlikely to rally in 1H15 as China wishes to encourage more clean energy development. However, due to national energy safety consideration, ~60% of China's energy consumption will remain as thermal coal by 2020. Besides, China plans to develop cross-country railway constructions in the Silk Road Economic Region. If implemented, downstream demand will increase, too.

**Results and Valuation**

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Turnover (RMB mn)	87,292	82,316	69,452	73,377	77,831
Chg (%.yoy)	(3.93)	(5.70)	(15.63)	5.65	6.07
Net Income (RMB mn)	8,842	3,805	975	3,029	3,182
Chg (%.YoY)	(11.18)	(56.97)	(74.39)	210.77	5.07
EPS (RMB)	0.67	0.29	0.07	0.23	0.24
Chg (%.YoY)	(11.18)	(56.97)	(74.39)	210.77	5.07
BVPS (RMB)	6.54	6.62	6.67	6.82	7.0
Chg (%.yoy)	5.10	1.24	0.79	2.21	2.27
P/E (x)	—	14.26	55.68	17.92	17.05
P/B (x)	—	0.62	0.61	0.60	0.59
DPS (HK\$)	0.21	0.08	0.02	0.08	0.08
Yield (%)	—	1.98	0.52	1.97	2.07
ROE (%)	20.39	4.36	1.11	3.38	3.48
ROA (%)	9.52	1.89	0.44	1.28	1.27

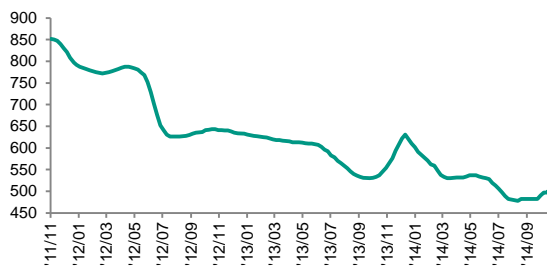
Source(s): Bloomberg, ABCI Securities estimates

**Effective cost control.** The Group successfully reduced its unit costs by ~11.7% in 9M14 mainly through enhancing maintenance and usage rate of equipment, improving utilization rates, and shutting down less profitable coal mines. Considering the ASP rise, reduced supply, and cost control, we believe the Group can make up its 3Q14 loss and achieve a FY14E EPS of RMB 0.17.

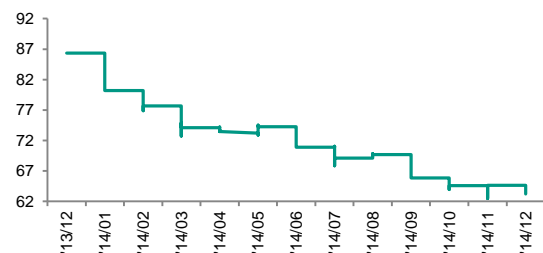
**Benefit from Shanghai-Hong Kong stock connect.** The stock is eligible for trading under the Shanghai-Hong Kong Stock Connect commenced on Nov. 17, 2014. China Coal's A-share price was significantly higher than its H-shares by ~47%, presenting good trading opportunities for H-share investors.

**Maintain HOLD with TP revised to HK\$ 4.67.** The counter is currently trading at 0.60x P/B and 17.92x P/E based on out FY15E estimates. We believe its shares are fairly valued and recommend **HOLD** with TP of HK\$ 4.67, representing 0.54x P/B and 16.2x P/E. The large A-H share price discrepancy presents strong upside potential for its H-shares. Besides, Sino Life Insurance Co., Ltd has been accumulating shares of the counter since Dec. 2013 (10.2% of A+H-shares as of Nov 20, 2014). Its share price may experience higher volatility should the shareholder decide to buy or sell the Group's shares in substantial quantity.

**Risk factors:** 1) Further declines in coal prices; 2) Imbalance in supply and demand; 3) Business cycles of downstream industries; 4) Costs resurging; 5) Higher price volatility induced by Sino Life Insurance Co.,Ltd's trading of the Group's shares

**Exhibit 1: Bohai-Rim thermal coal prices (RMB/ton)**


Source(s): Wind, ABCI Securities

**Exhibit 2: Australia BJ thermal coal price Index (US\$/ton)**


Source(s): Wind, ABCI Securities

**Exhibit 3: Mine-mouth price (RMB/ton) in Inner Mongolia**


Source(s): Wind, ABCI Securities

**Exhibit 4: Coal inventory days at major IPPs (day)**


Source(s): Wind, ABCI Securities



**Consolidated income statement (2012A-2016E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Revenue</b>	87,292	82,316	69,452	73,377	77,831
Coal	71,783	68,610	57,888	61,160	64,872
Coke and coal-chemical product, RMB mn	4,185	4,052	3,419	3,612	3,831
Machinery, RMB mn	7,885	6,835	5,767	6,093	6,463
Others, RMB mn	3,439	2,819	2,378	2,513	2,665
Cost of sales	(69,989)	(70,920)	(62,416)	(63,654)	(67,344)
<b>Gross profit</b>	<b>17,303</b>	<b>11,396</b>	<b>7,036</b>	<b>9,724</b>	<b>10,487</b>
Other income and gains	91	103	103	103	103
SG&A	(4,586)	(4,620)	(3,889)	(3,669)	(3,892)
<b>Profit from operations</b>	<b>12,807</b>	<b>6,879</b>	<b>3,249</b>	<b>6,158</b>	<b>6,698</b>
Other income/cost/and loss	(18)	(478)	(1,603)	(1,040)	(1,322)
Pre-tax profit	12,789	6,401	1,647	5,118	5,377
Profits tax	(3,214)	(1,781)	(458)	(1,424)	(1,496)
<b>Net profit</b>	<b>9,575</b>	<b>4,620</b>	<b>1,189</b>	<b>3,694</b>	<b>3,881</b>
<b>Profit attributable to:</b>					
Minority interests	733	815	214	665	699
<b>Equity shareholders of the Company</b>	<b>8,842</b>	<b>3,805</b>	<b>975</b>	<b>3,029</b>	<b>3,182</b>
<b>EPS (Basic), RMB</b>	<b>0.67</b>	<b>0.29</b>	<b>0.07</b>	<b>0.23</b>	<b>0.24</b>
<b>Dividend per share, RMB</b>	<b>0.21</b>	<b>0.08</b>	<b>0.02</b>	<b>0.08</b>	<b>0.08</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2012A-2016E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
Property, plant and equipment	85,510	110,015	120,573	133,962	145,703
Mining and exploration rights	32,479	32,567	33,156	32,861	33,009
Land use rights	3,529	4,006	3,767	3,886	3,827
Other non-current assets	14,789	22,205	21,626	22,010	21,837
<b>Total non-current assets</b>	<b>136,306</b>	<b>168,792</b>	<b>179,121</b>	<b>192,719</b>	<b>204,375</b>
Inventories	6,697	6,806	6,945	6,703	7,446
Accounts and bills receivable	11,394	12,895	10,418	11,251	11,804
Prepaid expenses and other current assets	6,378	7,005	8,334	7,525	8,661
Cash and cash equivalents	13,223	11,233	15,173	15,194	15,364
Other current assets	11,701	9,788	10,745	10,267	10,506
<b>Current assets</b>	<b>49,393</b>	<b>47,728</b>	<b>51,615</b>	<b>50,939</b>	<b>53,781</b>
<b>Total assets</b>	<b>185,699</b>	<b>216,520</b>	<b>230,736</b>	<b>243,658</b>	<b>258,156</b>
Trade and notes payables	(16,102)	(22,631)	(21,997)	(21,707)	(23,838)
Accruals, advance and other payables	(9,262)	(8,743)	(8,104)	(8,178)	(8,878)
Short-term borrowings	(5,130)	(6,776)	(7,378)	(8,213)	(8,996)
Other short-term liabilities	(3,633)	(5,348)	(5,486)	(5,644)	(6,010)
<b>Total current liabilities</b>	<b>(34,127)</b>	<b>(43,498)</b>	<b>(42,966)</b>	<b>(43,742)</b>	<b>(47,722)</b>
Long-term borrowings	(20,171)	(29,775)	(41,386)	(43,274)	(45,409)
Long-term bonds	(19,906)	(29,868)	(32,308)	(40,375)	(45,544)
Other Non-current liabilities	(10,064)	(10,286)	(10,171)	(10,063)	(10,863)
<b>Total non-current liabilities</b>	<b>(50,141)</b>	<b>(69,929)</b>	<b>(83,865)</b>	<b>(93,712)</b>	<b>(101,815)</b>
<b>Total liabilities</b>	<b>(84,268)</b>	<b>(113,427)</b>	<b>(126,831)</b>	<b>(137,454)</b>	<b>(149,537)</b>
Total equity	101,431	103,093	103,906	106,204	108,619
Non-controlling interests	14,694	15,282	15,403	15,743	16,101
<b>Equity of the firm</b>	<b>86,737</b>	<b>87,811</b>	<b>88,503</b>	<b>90,461</b>	<b>92,517</b>
<b>Book value/share, RMB</b>	<b>6.54</b>	<b>6.62</b>	<b>6.67</b>	<b>6.82</b>	<b>6.98</b>

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2012A-2016E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Profit before income tax</b>	<b>12,789</b>	<b>6,401</b>	<b>1,647</b>	<b>5,118</b>	<b>5,377</b>
DD&A	4,944	5,418	3,796	4,607	4,202
Financial cost	(2,201)	(3,215)	(2,708)	(2,961)	(2,835)
Financial income	903	591	747	669	708
(Increase) decrease in inventories	519	(199)	(139)	243	(744)
Decrease in trade and bills receivables	(3,383)	(1,693)	2,478	(833)	(553)
Other adj. items	(2,684)	(515)	1,791	239	1,352
<b>CF Operating</b>	<b>10,887</b>	<b>6,788</b>	<b>7,612</b>	<b>7,081</b>	<b>7,507</b>
Purchases of property, plant and equipment	(24,934)	(23,678)	(10,895)	(17,852)	(15,727)
Others	(6,955)	(5,569)	(8,242)	(8,796)	(8,738)
<b>CF Investing</b>	<b>(31,889)</b>	<b>(29,247)</b>	<b>(19,137)</b>	<b>(26,647)</b>	<b>(24,465)</b>
Cash flows from short-term borrowing activities	2,876	1,646	(1,828)	(91)	(960)
Cash flows from long-term borrowing activities	9,396	11,852	10,937	11,395	11,166
Cash flows from other financing	3,749	9,607	7,155	8,363	7,759
<b>CF from/(used) in Financing activities</b>	<b>16,021</b>	<b>23,105</b>	<b>16,264</b>	<b>19,667</b>	<b>17,966</b>
<b>Net change in cash</b>	<b>(4,981)</b>	<b>646</b>	<b>4,740</b>	<b>100</b>	<b>1,007</b>
Cash at the beginning	20,908	13,223	11,233	15,173	15,194
Exchange difference	6	(6)	(6)	(6)	(6)
<b>Cash at the end</b>	<b>15,933</b>	<b>13,863</b>	<b>15,967</b>	<b>15,267</b>	<b>16,196</b>

Source(s): Company, ABCI Securities estimates

**Financial Ratios (2012A-2016E)**

<b>FY Ended Dec 31</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Profitability, %</b>					
Gross profit margin	19.82	13.84	10.13	13.25	13.47
EBT margin	14.65	7.78	2.37	6.97	6.91
Net Profit Margin	10.97	5.61	1.71	5.03	4.99
ROA	9.52	1.89	0.44	1.28	1.27
ROE	20.39	4.36	1.11	3.38	3.48
<b>Cost ratio (%)</b>					
Admin/Sales	5.25	5.61	5.60	5.00	5.00
Effective tax rate	25	28	28	28	28
<b>Leverage</b>					
Current Ratio (current asset / current liabilities)	1.45	1.10	1.20	1.16	1.13
Quick Ratio (cash & equivalents + receivables) / current liabilities	0.72	0.55	0.60	0.60	0.57
Cash Ratio (cash & equivalents) / current liabilities	0.16	0.10	0.12	0.11	0.10
Total debt/total equity, %	83.08	110.02	122.06	129.43	137.67
Total debt/total asset, %	45.38	52.39	54.97	56.41	57.93
<b>Net debt/total equity</b>	<b>49.01</b>	<b>58.50</b>	<b>67.85</b>	<b>73.66</b>	<b>0.00</b>
<b>Working capital data and Ratios</b>					
Inventory turnover	9.99	10.50	9.08	9.33	9.52
Receivables turnover	9.00	6.78	5.96	6.77	6.75
Payables turnover	7.15	5.85	5.37	5.85	5.91
Days' inventory on hand	36.54	34.75	40.21	39.13	38.34
Days' of sales outstanding	40.58	53.85	61.26	53.89	54.06
Days' payables	51.06	62.41	68.02	62.36	61.80
Cash conversion cycle	26.06	26.19	33.45	30.66	30.61

Source(s): Company, ABCI Securities estimates

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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