



# Company Report

## China Coal (1898 HK) China Coal & Consumable Fuels Industry Mar 14, 2013

**Rating: Hold**  
**TP: HK\$7.5**

### Key Data

H-Share price (HK\$)	7.22
Upside potential (%)	3.88
52Wk H/L(HK\$)	9.93/6.08
Issued shares (mn)	13,259
H Shares (mn)	4,107
A Shares (mn)	9,152
Market cap	
H Shares (HK\$mn)	29,527
A Shares (Rmb mn)	66,444
3-mth avg daily turnover (HK\$mn)	210
Major shareholder (%):	
China Coal Group Corp Ltd	57.54%

Source: Company, Bloomberg, ABCI Securities

### Revenue composition in 1H12 (%)

Coal, %	82
Coke and coal-chemical product, %	5
Machinery, %	9
Others, %	4

Source: Company

### Share performance (%)

	Absolute	Relative*
1-mth performance	(12.73)	(6.09)
3-mth performance	(13.15)	(10.76)
6-mth performance	(2.04)	(14.33)

\*Relative to HSCEI Index

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

### Analyst

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### Pessimistic sentiment blocks the upside

China Coal has finished long-term contract negotiation with IPPs, eliminating the largest uncertainty of the stock. However, recent thermal coal spot prices are still on the downside, making the stock slump recently. The pessimistic market sentiment will block the upside potential of the stock. In light of this, we maintain Hold rating on the stock and revise down the 12-month target price (TP) from HK\$8.88 to HK\$7.5, implying 3.9% upside from the current price.

**Worse-than-expected market sentiment:** Bohai-Rim steam coal price dropped to Rmb620/t, the lowest level since its inception. The inventory at QHD Port rebounded 1.6%WoW on Mar. 9. Our channel check indicates that although China Shenhua (1088 HK) and China Coal (1898 HK) have finished negotiation with IPPs, other large thermal coal producers are in the process of negotiation. China IPPs aims to gain more bargaining power through imports of more foreign coal products regarding the contract prices with Chinese miners.

**China's economy in the course of mild recovery:** Though China has showed some positive signs of recovery, it is still far from triggering strong pickup of thermal coal demand. Also, slower-than-expected global economic recovery put pressure on the thermal coal prices, as we found that Australia BJ thermal coal price dropped 0.4%WoW to US\$93/t on Mar 7. We expect that it will take more time for the thermal coal sector to regain solid rebound.

**Maintain Hold rating with reduced target price:** We are optimistic about the long-term business development of China Coal. However, the pessimistic market sentiment remains intact, thus leading to sector underperformance. In light of this, we change China Coal's 2013E EPS expectation from Rmb0.74 to Rmb 0.72. Based on 0.81x/8.1x 2013E PB/PE ratio, we reduce China Coal's TP from HK\$8.88 to HK\$7.5, with 3.9% upside potential from the current price.

**Risk factors:** 1) coal price risk; 2) demand risk due to slowdown of economic growth; 3) regulatory and policy risk; 4) change of tax regimes.

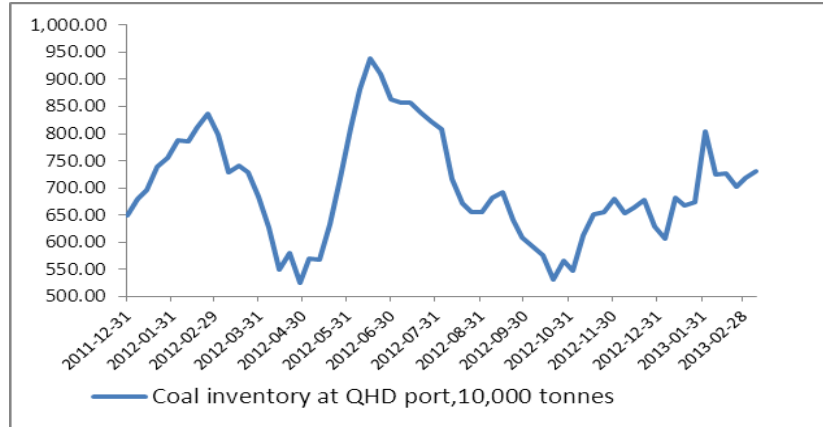
### Performance and Valuation

FY ended Dec 31	2010A	2011A	2012E	2013E	2014E
Turnover (Rmb mn)	70,303	87,773	89,068	93,070	100,538
Chg (%.yoy)	32.2	24.8	1.5	4.5	8.0
Net Income (Rmb mn)	7,466	9,802	9,325	9,496	10,269
Chg (%.YoY)	0.8	31.3	(4.9)	1.8	8.1
EPS (Rmb)	0.56	0.74	0.70	0.72	0.77
Chg (%.YoY)	0.0	32.1	(5.0)	1.8	8.1
BVPS (Rmb)	5.6	6.2	6.7	7.2	7.7
Chg (%.yoy)	8.0	10.4	8.2	7.7	7.7
P/E (x)	—	—	8.2	8.1	7.5
P/B (x)	—	—	0.87	0.81	0.7
Dividend yield (%)	—	—	3.5	3.5	3.8
ROAE (%)	10.5	12.6	11.0	10.3	10.4
ROAA (%)	6.4	6.9	5.4	4.9	5.0

Source: Company, Bloomberg, ABCI Securities estimates (assuming Rmb1.0=HK\$1.25)

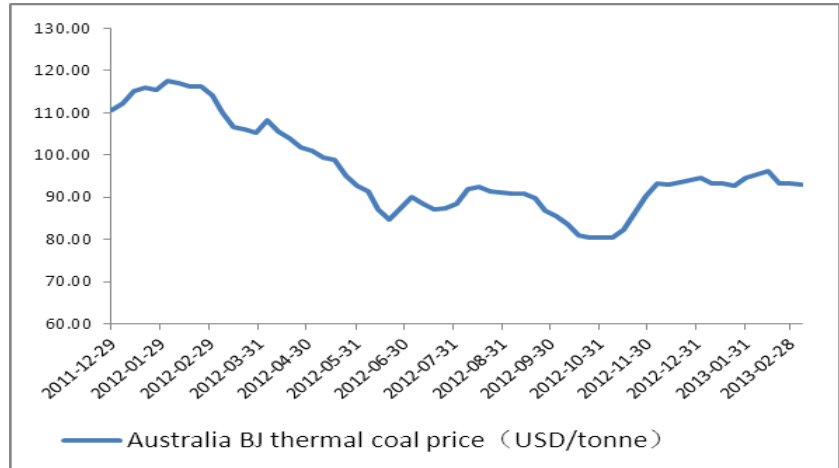


Exhibit: Coal inventory at QHD port (10,000 tonnes, up to Mar 9, 2013)



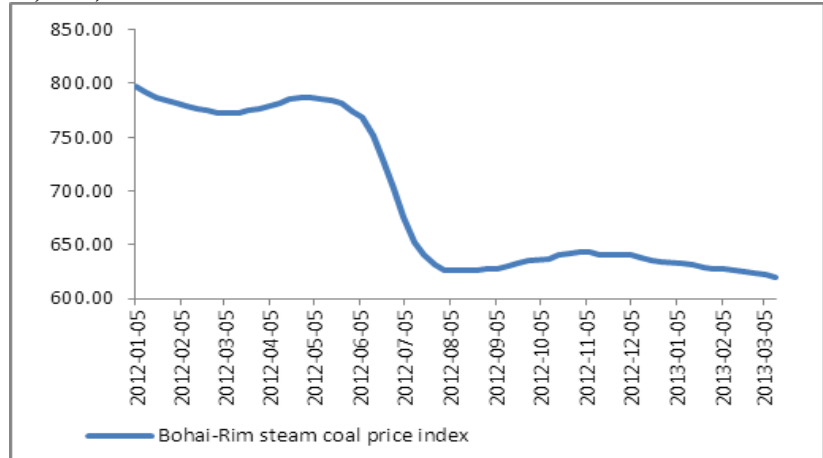
Source: Wind, ABCI Securities

Exhibit: Australia BJ thermal coal price (USD/tonne, up to Mar.7, 2013)



Source: Wind, ABCI Securities

Exhibit: Bohai-Rim steam coal price index (5500 kcal/kg, up to Mar. 13, 2013)



Source: Wind, ABCI Securities



**Consolidated income statements forecast**

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
<b>Revenue</b>	70,303	87,773	89,068	93,070	100,538
Coal	55,839	71,741	75,005	78,107	84,826
Coke and coal-chemical product, Rmb mn	4,888	5,274	3,955	4,351	4,568
Machinery, Rmb mn	6,095	7,073	8,134	8,541	8,968
Others, Rmb mn	3,480	3,685	1,973	2,072	2,175
Cost of sales	(55,825)	(69,466)	(71,005)	(74,556)	(80,520)
<b>Gross profit</b>	<b>14,478</b>	<b>18,307</b>	<b>18,062</b>	<b>18,515</b>	<b>20,018</b>
Other income and gains	333	191	200	211	227
SG&A	(3,749)	(4,574)	(4,803)	(5,043)	(5,447)
<b>Profit from operations</b>	<b>11,062</b>	<b>13,923</b>	<b>13,460</b>	<b>13,682</b>	<b>14,798</b>
Other income/cost/and loss	(63)	118	(232)	(212)	(232)
Pre-tax profit	10,999	14,041	13,228	13,470	14,566
Profits tax	(2,848)	(3,383)	(3,307)	(3,367)	(3,641)
<b>Net profit</b>	<b>8,151</b>	<b>10,659</b>	<b>9,921</b>	<b>10,102</b>	<b>10,924</b>
Minority interests	685	857	595	606	655
<b>Equity shareholders of the Company</b>	<b>7,466</b>	<b>9,801</b>	<b>9,325</b>	<b>9,496</b>	<b>10,269</b>
<b>EPS (Basic), Rmb</b>	<b>0.56</b>	<b>0.74</b>	<b>0.70</b>	<b>0.72</b>	<b>0.77</b>
<b>Dividend per share, Rmb</b>	<b>0.16</b>	<b>0.22</b>	<b>0.20</b>	<b>0.20</b>	<b>0.22</b>

Source: Company data, ABCI Securities estimates

**Balance sheet forecast**

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
Property, plant and equipment	46,418	60,224	72,269	80,941	89,739
Mining and exploration rights	18,611	28,420	31,830	33,421	35,092
Land use rights	2,564	2,815	3,097	2,942	2,942
Other non-current assets	6,643	12,363	16,231	16,692	17,468
<b>Total non-current assets</b>	<b>74,236</b>	<b>103,822</b>	<b>123,426</b>	<b>133,996</b>	<b>145,242</b>
Inventories	6,215	7,319	8,782	7,035	6,008
Accounts and bills receivable	7,006	7,803	11,704	10,534	9,479
Prepaid expenses and other current assets	5,439	5,643	7,900	7,505	6,755
Cash and cash equivalents	22,922	20,879	16,258	20,090	24,956
Other current assets	7,118	14,468	18,809	18,809	18,809
<b>Current assets</b>	<b>48,700</b>	<b>56,111</b>	<b>63,454</b>	<b>63,973</b>	<b>66,007</b>
<b>Total assets</b>	<b>122,936</b>	<b>159,933</b>	<b>186,880</b>	<b>197,969</b>	<b>211,249</b>
Trade and notes payables	(9,254)	(10,917)	(14,192)	(14,902)	(15,647)
Accruals, advance and other payables	(6,997)	(11,676)	(14,596)	(15,325)	(16,092)
Short-term borrowings	(396)	(1,825)	(2,372)	(2,491)	(2,615)
Other short-term liabilities	(2,743)	(4,361)	(4,381)	(4,487)	(4,815)
<b>Total current liabilities</b>	<b>(19,391)</b>	<b>(28,779)</b>	<b>(35,541)</b>	<b>(37,204)</b>	<b>(39,169)</b>
Long-term borrowings	(10,716)	(11,456)	(19,475)	(19,865)	(20,262)
Long-term bonds	-	(14,955)	(19,442)	(20,414)	(22,455)
Other Non-current liabilities	(6,491)	(8,778)	(8,625)	(8,714)	(8,965)
<b>Total non-current liabilities</b>	<b>(17,207)</b>	<b>(35,189)</b>	<b>(47,542)</b>	<b>(48,992)</b>	<b>(51,682)</b>
<b>Total liabilities</b>	<b>(36,598)</b>	<b>(63,968)</b>	<b>(83,083)</b>	<b>(86,196)</b>	<b>(90,851)</b>
Total equity	86,339	95,965	103,797	111,773	120,398
Non-controlling interests	12,290	14,220	15,380	16,562	17,840
<b>Equity of the firm</b>	<b>74,049</b>	<b>81,745</b>	<b>88,417</b>	<b>95,211</b>	<b>102,558</b>
<b>Book value/share, Rmb</b>	<b>5.58</b>	<b>6.17</b>	<b>6.67</b>	<b>7.18</b>	<b>7.74</b>

Source: Company data, ABCI Securities estimates

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**China Coal Energy Co., Ltd.****Consolidated cash flow statements forecast**

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
<b>Profit before income tax</b>	<b>10,999</b>	<b>14,042</b>	<b>13,228</b>	<b>13,470</b>	<b>14,566</b>
DD&A	3,752	4,750	4,872	4,950	5,049
Financial cost	(656)	(694)	(694)	(729)	(765)
Financial income	781	352	352	370	388
(Increase) decrease in inventories	(1,254)	(1,197)	(1,464)	1,748	1,027
Decrease in trade and bills receivables	(2,123)	(1,742)	(3,901)	1,170	1,054
Other adj. items	(816)	(813)	(442)	(1,253)	(1,082)
<b>CF Operating</b>	<b>10,683</b>	<b>14,698</b>	<b>11,951</b>	<b>19,726</b>	<b>20,237</b>
Purchases of property, plant and equipment	(12,060)	(19,047)	(17,523)	(17,874)	(18,767)
Others	13,525	(16,131)	(7,091)	(3,137)	(3,137)
<b>CF Investing</b>	<b>1,466</b>	<b>(35,178)</b>	<b>(24,615)</b>	<b>(21,011)</b>	<b>(21,905)</b>
Cash flows from short-term borrowing activities	9,215	1628.5	2070.3	2173.82	2282.50575
Cash flows from long-term borrowing activities	(276)	3,693	5,045	5,297	5,562
Cash flows from other financing	(1,586)	13,122	935	(2,347)	(1,304)
<b>CF from/(used) in Financing activities</b>	<b>(1,853)</b>	<b>18,443</b>	<b>8,050</b>	<b>5,124</b>	<b>6,540</b>
<b>Net change in cash</b>	<b>10,296</b>	<b>(2,037)</b>	<b>(4,614)</b>	<b>3,839</b>	<b>4,873</b>
Cash at the beginning	12,628	22,922	20,879	16,258	20,090
Exchange difference	(2)	(7)	(7)	(7)	(7)
<b>Cash at the end</b>	<b>22,922</b>	<b>20,879</b>	<b>16,258</b>	<b>20,090</b>	<b>24,956</b>

Source: Company data, ABCI Securities estimates



## Disclosures

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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 2007-2011

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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