

Revenue composition in 1H12 (%)

Coal	75.7
Power	17.1
Coal related	3.6
Railway	1.6
Others	2.0

Source: Company, ABCI Securities

Sector performance (%)

	Absolute	Relative*
1-mth	(3.5)	(4.1)
3-mth	(2.3)	(7.2)
6-mth	(3.7)	(7.9)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance vs. HSCFI index



Source: Bloomberg, ABCI Securities

Thermal Coal Sector

2013 Outlook: economic recovery & sector liberalization benefit large and cost-efficient producers

Thermal coal prices suffered from weak economy in 2012. For 2013, we expect that: 1) coal prices will remain stable due to mild economic recovery; 2) sector liberalization provides more upside catalysts to large coal producers.

Thermal coal price outlook: 4Q12 spot coal prices (about Rmb640/ton) set the reference basis for 2013. We expect coal prices to remain stable in the range between Rmb620~673 in 1H13. Surprises to our estimates will be subject to the economic development.

Two main factors affecting the sector in 2013 are:

1. Macro-economy: China's economy hit the bottom in 3Q12 and will stabilize in 2013 in light of new stimulus and fiscal support initiated by China's new leaders. We forecast that China's GDP growth will be 8.1% in 2013 and the thermal coal output growth rate will be around 3%~5%, a mild growth supported by demand for thermal power in recovering downstream industries.

2. Important sector policies:

i) Lift of the dual prices system. As per our channel check, it is highly possible that the dual system and the price ceiling will be eliminated, leaving coal producers to negotiate freely with their clients. This lends more power to large coal producers, esp. those with transportation edges.

ii) More coal chemical projects will be approved by NDRC for selected coal producers, which can help them to consume more coal and generate more income.

Investment theme: Large coal miners with strong logistic capacities and low coal cost will benefit most. Selling costs of China Shenhua (1088 HK), Yitai Coal (3948 HK), China Coal (1898 HK) and Yanzhou Coal (1171 HK) are Rmb121.2, Rmb80.8, Rmb217.64 and Rmb335.08 per ton respectively for the first 9 months of 2012. We prefer Shenhua and Yitai.

Risk factors: 1) weaker-than-expected economic growth; 2) the influx of imported coal cap the domestic coal prices; 3) possible change of resources tax system or environment policies.

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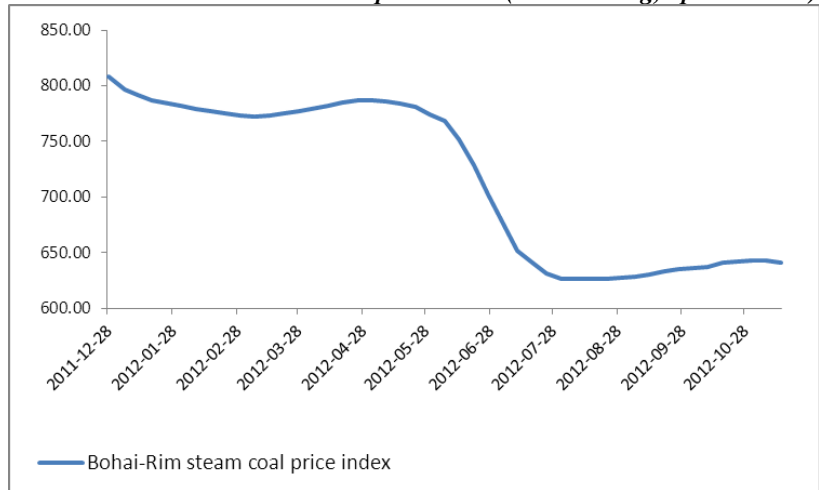
Valuation

Name	Code	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E PER	13E PBV	13E Yield
China Shenhua	1088 HK	Buy	31.1	38.9	25.08	9.20	1.75	4.26
Yitai Coal	3948 HK	Buy	42.5	50.54	18.92	5.95	1.75	5.03
China Coal	1898 HK	Unrated	7.48	na.	na.	na.	na.	na.
Yanzhou Coal	1171 HK	Unrated	11.46	na.	na.	na.	na.	na.

Source: Company, Bloomberg, ABCI Securities estimates; (assume Rmb1=1.24HK\$)

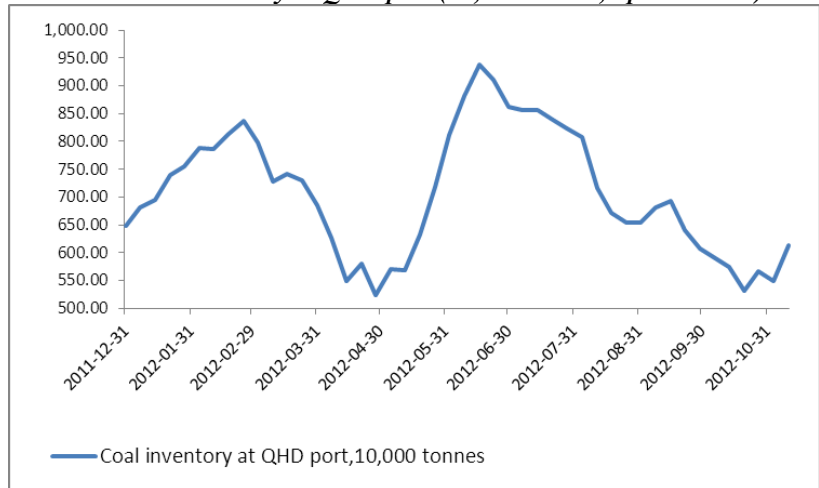


Exhibit 1: Bohai-Rim steam coal price index (5500 kcal/kg, up to Nov 14)



Source: Wind, ABCI Securities

Exhibit 2: Coal inventory at QHD port (10,000 tonnes, up to Nov 10)



Source: Wind, ABCI Securities

Disclosures

Analyst Certification

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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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