

Key Data

Share price (HK\$)	8.1
52Wk H/L(HK\$)	10.5/ 6.08
Issued shares (mn)	13,259
- H Shares (mn)	4,107
- A Shares (mn)	9,152
Market cap	
- H Shares (HK\$m)	33,267
- A Shares (Rmbmn)	65,620
3-mth avg vol (HK\$m)	234.39
Major shareholder (%):	
China Coal Group Corp Ltd	57.54

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

Coal	81.73
Coking operation	6.01
Coal mining equipment	8.06
Others	4.20

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	14.2	8.1
3-mth	5.1	(4.0)
6-mth	(2.6)	(11.3)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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China Coal (1898 HK) – Unrated China Coal & Consumable Fuels Industry

Early winter weather heats the thermal coal sector

Early winter snowfall in Beijing breaks records and peak season of the thermal coal sector will come earlier than expected. Though we are optimistic for 4Q2012 and 1Q2013, we concern on China Coal's H-share performance, since its low profitability might not support its valuation.

Early winter peak supports the spot coal price. Snow and rain hit Beijing over the weekend, causing transport chaos and governments were taking effort to provide sufficient energy and fuels. Beijing initiated heat supply on 2 Nov, 12 days earlier than previous year. We expect that demand for thermal coal in northern China will pick up. Seasonal peak demand for thermal coal in 4Q2012 and 1Q2013 will come earlier than expected.

Bohai-Rim steam coal price index (5500 kcal/kg) has climbed up to Rmb643/ton on 31 Oct and stabilized at this level in the first week of Nov.

Coal inventory stabilized at low level. The inventory at Qinhuangdao Port slumped to 5.48 mn tonnes on Nov. 3, down 42% from June's peak. Taking account of the recovering macro-economy, we are optimistic on the thermal coal sector for 4Q2012 and 1Q2013.

Though we are optimistic on the thermal coal sector, we concern on China Coal's valuation. The counter has outperformed the market recently and was trading at 9.5x FY13 PE. However, its NBV reduced by 15% yoy to Rmb6.47/share on 30 Sep. Its low single-digit ROAE ratio for the 2013E does not justify the counter to trade at huge premium to its NBV.

Risk factors: 1) Coal price risk; 2) Weak power consumption growth on slow economic growth; 4) Possible change of resources tax system.

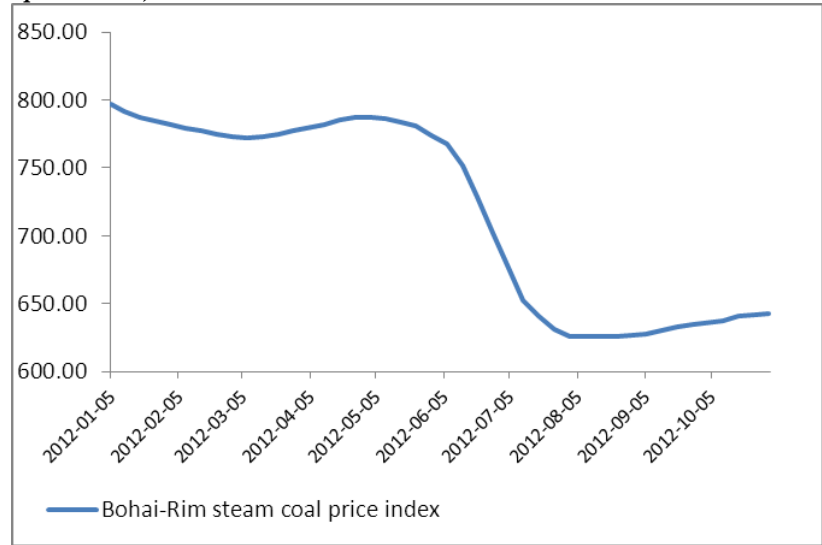
Performance and Valuation

FY ended Dec 31	2009A	2010A	2011A	2012E	2013E
Turnover (Rmb mn)	53,187	70,303	87,773	90,033	100,392
Net Income (Rmb mn)	7,409	7,466	9,802	8,705	9,159
Chg (% YoY)	3.9	0.8	31.3	(11.2)	5.2
EPS (Rmb)	0.56	0.56	0.74	0.67	0.70
Chg (% YoY)	—	—	32.1	(9.6)	4.0
P/E (x)	—	—	8.6	9.8	9.5
P/B (x)	—	—	1.0	1.0	0.9
Dividend yield (%)	—	—	3.4	2.8	3.0
ROAE (%)	11.7	10.5	12.6	5.2	5.0
Net debt/total equity (%)	Net Cash	Net Cash	Net Cash	24.5	34.0

Source: Company, Bloomberg (assuming Rmb1=HK\$1.23)

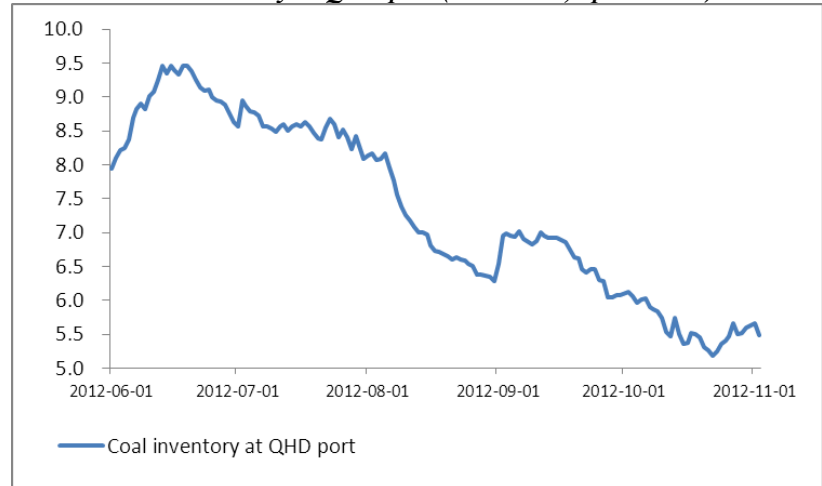


Exhibit 1: Bohai-Rim steam coal price index (5500 kcal/kg, Rmb/tonne, up to Nov. 7)



Source: Wind, ABCI Securities

Exhibit 2: Coal inventory at QHD port (mn tonnes, up to Nov.3)



Source: Wind, ABCI Securities

Exhibit 3: Beta Comparison for China thermal coal stocks

	China Coal 1898 HK	Yanzhou Coal 1171 HK	China Shenhua 1088 HK	Yitai Coal 900948 CH*
Raw Beta	1.546	1.441	1.1151	1.101
Relative Index	HSI	HSI	HSI	SHBSHR
Period	Weekly			
Range	11/12/2010~11/02/2012			

* Yitai only listed its H-shares this July, so we included its B-share's beta for reference.

Source: Bloomberg

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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