



November 13, 2013  
Company Report  
Rating: HOLD  
TP: HK\$ 4.11

H-Share price (HK\$) 4.71  
Est. share price return (12.64%)  
Est. dividend yield 2.99%  
Est. total return (9.65%)

Previous Rating & TP HOLD; HK\$ 4.48  
Previous Report Date Sep. 6, 2013

Analyst: Mark Chen  
Tel: (852) 2147 8819  
Email: markchen@abci.com.hk

**Key Data**

52Wk H/L(HK\$)	9.04/3.66
Issued shares (mn)	13,259
H-Shares (mn)	4,107
A-Shares (mn)	9,152
Market cap	
H-shares (HK\$ mn)	19,342
A-Shares (HK\$ mn)	46,675
3-mth avg daily turnover (HK\$ mn)	264.2
Major shareholder(s) (%):	
China Coal Group Corp Ltd	57.54

Source(s): Company, Bloomberg, ABCI Securities

**FY12 Revenue breakdown (%)**

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

Source(s): Company, ABCI Securities

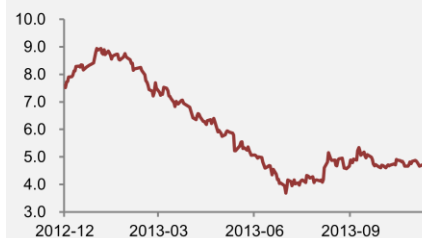
**Share performance (%)**

	Absolute	Relative*
1-mth	0.21	0.39
3-mth	(8.54)	(12.24)
6-mth	(19.62)	(14.69)

\*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

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



Source(s): Bloomberg

China Coal (1898 HK)  
Maintain HOLD on limited upside with slashed TP

- China Coal is expected to enlarge its production capacity in 2014-15 by at least 6mnt; its coal output and transportation capacity supported by government; recent spot market price rebound help to reduce competition
- The Group's unit cost (under China's GAPP) rebound 2% from 1H13's RMB212.55/ton to 9M13's RMB216.97/ton, indicating more effort need to implemented to achieve cost efficiency
- We revised up its sales, but reduced ASP and GPM estimation, resulting a lower EPS estimation in FY13/14 of RMB0.39/0.43, down 23.53%/15.69% from previous estimation
- Present price at 0.52x FY14E P/B largely priced in the negative factors. Maintain HOLD with TP at HK\$4.11, reflecting 0.5x FY14E P/B

**Thermal coal prices bottomed out.** China's Manufacturing PMI rose for four consecutive months to 51.4 in Oct, signaling an economic recovery. In addition, China's thermal coal market bottomed out in 4Q13, with Bohai-Rim Thermal Coal Prices rebounding RMB 8/ton on Nov 6, 2013, up 2.64% MoM and 2.8% since Oct 9, 2013. The recovering coal prices will help the Group in its negotiation with the IPPs on the 2014 contract prices.

**Meaningful increases in production capacity.** Several new mines, including Pingshuo East Open Pit Mine, Wangjialing Coalmine, and Hecaogou Coalmine further increased utilization of the Group's coal production capacity. Moreover, the Group is also expediting the construction pace Xiaohuigou Coalmine and other coalmine projects. We estimate the Group's total production capacity will improve by at least 600mnt in 2014, leading to higher commercial coal sales in the future.

**Stringent cost control required in 2014.** China Coal's unit cost went up by 2% (under China GAAP) from RMB 212.55/ton in 1H13 to RMB 216.97/ton in 9M13. Thus, we believe it is highly unlikely to meet its cost cut target of 5% for 2013. The firm will need to strengthen its cost management efforts to compete with low-cost peers such as China Shenhua (1088 HK) and Yitai Coal (3948 HK).

**Maintain HOLD with reduced TP at HK\$ 4.11.** We revise up our sales volume estimates while reducing the ASP and GPM based on the 9M13 results. Accordingly, we lower our FY13E/14E EPS from RMB 0.51/0.51 to RMB 0.39/0.43. Currently the counter is trading at 0.53x FY14E P/B and we believe it is fairly valued with limited upside. Maintain HOLD with TP at HK\$ 4.11, reflecting 0.5x FY14E P/B.

**Risk factors:** 1) Further declines in coal prices; 2) Imbalance in supply and demand; 3) Business cycles of downstream industries; 4) Surging costs; 5) FY13E DPS may drop.

**Results and Valuation**

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Revenue (RMB mn)	70,303	90,865	87,292	89,779	98,343
Chg (% YoY)	32.18	29.25	(3.93)	2.85	9.54
Net Profit (RMB mn)	7,466	9,955	8,842	5,166	5,728
Chg (% YoY)	0.77	33.34	(11.18)	(41.57)	10.87
EPS (RMB)	0.56	0.75	0.67	0.39	0.43
Chg (% YoY)	0.00	34.08	(11.18)	(41.57)	10.87
BVPS (RMB)	5.58	6.22	6.54	6.82	7.13
Chg (% YoY)	7.95	11.45	5.09	4.26	4.53
P/E (x)			5.56	9.52	8.58
P/B (x)			0.57	0.54	0.52
DPS(RMB)	0.16	0.22	0.21	0.11	0.12
Yield (%)			5.66	2.99	3.31
ROE (%)	10.47	12.72	10.45	5.83	6.19
ROA (%)	6.38	6.98	5.08	2.70	2.77

Source(s): Bloomberg, ABCI estimates



**Consolidated income statement (2010A-2014E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
<b>Revenue</b>	70,303	90,865	87,292	89,779	98,343
Coal	55,839	74,038	71,783	73,960	81,733
Coke and coal-chemical product, RMB mn	4,888	5,301	4,185	4,269	4,482
Machinery, RMB mn	6,095	7,733	7,885	8,042	8,444
Others, RMB mn	3,480	3,793	3,439	3,508	3,683
Cost of sales	(55,825)	(72,052)	(69,989)	(75,863)	(83,100)
<b>Gross profit</b>	<b>14,478</b>	<b>18,813</b>	<b>17,303</b>	<b>13,916</b>	<b>15,243</b>
Other income and gains	333	162	91	126	137
SG&A	(3,749)	(4,757)	(4,586)	(6,421)	(6,935)
<b>Profit from operations</b>	<b>11,062</b>	<b>14,219</b>	<b>12,807</b>	<b>7,621</b>	<b>8,445</b>
Other income/cost/and loss	(63)	97	(18)	(293)	(320)
Pre-tax profit	10,999	14,315	12,789	7,328	8,125
Profits tax	(2,848)	(3,462)	(3,214)	(1,832)	(2,031)
<b>Net profit</b>	<b>8,151</b>	<b>10,854</b>	<b>9,575</b>	<b>5,496</b>	<b>6,093</b>
<b>Profit attributable to:</b>					
Minority interests	685	898	733	330	366
<b>Equity shareholders of the Company</b>	<b>7,466</b>	<b>9,955</b>	<b>8,842</b>	<b>5,166</b>	<b>5,728</b>
<b>EPS (Basic), RMB</b>	<b>0.56</b>	<b>0.75</b>	<b>0.67</b>	<b>0.39</b>	<b>0.43</b>
<b>Dividend per share, RMB</b>	<b>0.16</b>	<b>0.22</b>	<b>0.21</b>	<b>0.11</b>	<b>0.12</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2010A-2014E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
Property, plant and equipment	46,418	60,823	85,510	104,314	119,951
Mining and exploration rights	18,611	28,973	32,479	30,726	31,602
Land use rights	2,564	2,819	3,529	3,174	3,351
Other non-current assets	6,643	12,364	14,789	13,591	14,198
<b>Total non-current assets</b>	<b>74,236</b>	<b>104,979</b>	<b>136,306</b>	<b>151,804</b>	<b>169,102</b>
Inventories	6,215	7,315	6,697	6,900	7,625
Accounts and bills receivable	7,006	8,014	11,394	11,739	12,973
Prepaid expenses and other current assets	5,439	6,468	6,367	6,560	7,250
Cash and cash equivalents	22,922	20,907	13,223	6,995	7,276
Other current assets	7,118	14,468	11,701	13,085	12,393
<b>Current assets</b>	<b>48,700</b>	<b>57,173</b>	<b>49,381</b>	<b>45,280</b>	<b>47,517</b>
<b>Total assets</b>	<b>122,936</b>	<b>162,152</b>	<b>185,688</b>	<b>197,084</b>	<b>216,619</b>
Trade and notes payables	(9,254)	(11,003)	(16,102)	(16,590)	(18,333)
Accruals, advance and other payables	(6,997)	(12,053)	(9,262)	(9,542)	(10,545)
Short-term borrowings	(396)	(2,255)	(5,130)	(5,203)	(5,805)
Other short-term liabilities	(2,743)	(4,514)	(3,633)	(3,373)	(3,667)
<b>Total current liabilities</b>	<b>(19,391)</b>	<b>(29,824)</b>	<b>(34,126)</b>	<b>(34,709)</b>	<b>(38,350)</b>
Long-term borrowings	(10,716)	(11,456)	(20,171)	(20,867)	(25,519)
Long-term bonds	-	(14,955)	(19,906)	(25,823)	(32,071)
Other Non-current liabilities	(6,491)	(9,043)	(10,064)	(9,942)	(10,143)
<b>Total non-current liabilities</b>	<b>(17,207)</b>	<b>(35,454)</b>	<b>(50,141)</b>	<b>(56,633)</b>	<b>(67,733)</b>
<b>Total liabilities</b>	<b>(36,598)</b>	<b>(65,278)</b>	<b>(84,267)</b>	<b>(91,341)</b>	<b>(106,084)</b>
Total equity	86,339	96,874	101,420	105,743	110,535
Non-controlling interests	12,290	14,349	14,694	15,320	16,015
<b>Equity of the firm</b>	<b>74,049</b>	<b>82,525</b>	<b>86,726</b>	<b>90,423</b>	<b>94,521</b>
<b>Book value/share, RMB</b>	<b>5.58</b>	<b>6.22</b>	<b>6.54</b>	<b>6.82</b>	<b>7.13</b>

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2010A-2014E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
<b>Profit before income tax</b>	<b>10,999</b>	<b>14,315</b>	<b>12,789</b>	<b>7,328</b>	<b>8,125</b>
DD&A	3,752	4,854	4,944	4,897	4,889
Financial cost	(656)	(715)	(2,201)	(1,458)	(1,829)
Financial income	781	353	903	628	765
(Increase) decrease in inventories	(1,254)	(1,174)	519	(203)	(725)
Decrease in trade and bills receivables	(2,123)	(1,851)	(3,383)	(346)	(1,234)
Other adj. items	(816)	(1,235)	(2,683)	(1,650)	650
<b>CF Operating</b>	<b>10,683</b>	<b>14,547</b>	<b>10,887</b>	<b>9,196</b>	<b>10,641</b>
Purchases of property, plant and equipment	(12,060)	(19,156)	(24,934)	(22,045)	(19,840)
Others	13,525	(16,127)	(6,955)	(9,572)	(7,189)
<b>CF Investing</b>	<b>1,466</b>	<b>(35,283)</b>	<b>(31,889)</b>	<b>(31,617)</b>	<b>(27,029)</b>
Cash flows from short-term borrowing activities	9	1779	2876	2,327	2,601
Cash flows from long-term borrowing activities	(276)	3,693	9,396	6,545	7,970
Cash flows from other financing	(1,586)	13,122	1,039	7,329	6,104
<b>CF from/(used) in Financing activities</b>	<b>(1,853)</b>	<b>18,593</b>	<b>13,311</b>	<b>16,201</b>	<b>16,676</b>
<b>Net change in cash</b>	<b>10,296</b>	<b>(2,142)</b>	<b>(7,691)</b>	<b>(6,220)</b>	<b>287</b>
Cash at the beginning	12,628	23,057	20,907	13,223	6,995
Exchange difference	(2)	(7)	(7)	(7)	(7)
<b>Cash at the end</b>	<b>22,922</b>	<b>20,908</b>	<b>13,210</b>	<b>6,995</b>	<b>7,276</b>

Source(s): Company, ABCI Securities estimates

**Financial Ratios (2010A-2014E)**

<b>FY Ended Dec 31</b>	<b>2010A</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
<b>Profitability, %</b>					
Gross profit margin	20.59	20.70	19.82	15.50	15.50
EBT margin	15.65	15.75	14.65	8.16	8.26
Net Profit Margin	11.59	11.95	10.97	6.12	6.20
ROA	6.38	6.98	5.08	2.70	2.77
ROE	10.47	12.72	10.45	5.83	6.19
<b>Cost ratio (%)</b>					
Admin/Sales	5.33	5.23	5.25	7.15	7.05
Effective tax rate	26	24	25	25	25
<b>Leverage</b>					
Current Ratio (current asset / current liabilities)	2.51	1.92	1.45	1.30	1.24
Quick Ratio (cash & equivalents + receivables) / current liabilities	1.54	0.97	0.72	0.54	0.53
Cash Ratio (cash & equivalents) / current liabilities	0.63	0.32	0.16	0.08	0.07
Total debt/total equity, %	42.39	67.38	83.09	86.38	95.97
Total debt/total asset, %	29.8	40.3	45.4	46.3	49.0
<b>Net debt/total equity</b>	<b>Net Cash</b>	<b>23.6</b>	<b>33.7</b>	<b>42.8</b>	<b>49.1</b>
<b>Working capital data and Ratios</b>					
Inventory turnover	17.96	10.65	9.99	11.16	11.44
Receivables turnover	20.07	12.10	9.00	7.76	7.96
Payables turnover	8.86	9.74	7.15	6.58	6.78
Days' inventory on hand	20.32	34.27	36.54	32.71	31.90
Days' of sales outstanding	18.19	30.17	40.57	47.02	45.86
Days' payables	41.22	37.47	51.06	55.50	53.80
Cash conversion cycle	-2.71	26.97	26.06	24.23	23.96

Source(s): Company, ABCI Securities estimates



## Disclosures

### Analyst Certification

I, Chen Yibiao, Mark, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

ABC Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

### 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.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is

determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

---

Copyright 2013 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**