



November 13, 2013

Sector Rating:
NEUTRAL

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Key Data

Avg.14E P/E (x)	7.65
Avg.14E P/B (x)	0.92
Avg.14E Dividend Yield (%)	4.27

Source(s): Company, Bloomberg, ABCI Securities

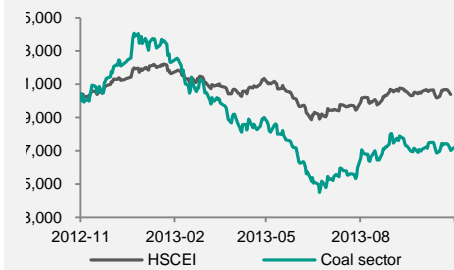
Sector performance (%)

	Absolute	Relative*
1-mth	1.66	1.64
3-mth	7.20	(3.05)
6-mth	(13.30)	(6.56)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year Sector performance (HK\$)



Source(s): Bloomberg

China Thermal Coal Sector Sector consolidation underway

- ❖ We maintain our **NEUTRAL** rating on China thermal coal sector on mild recovery in economy and downstream demand. With coal price rebounding since mid-Oct, we believe the worst has been over.
- ❖ Domestic oversupply and fierce competition from overseas suppliers will continue to pose threats, especially to domestic coal players with a high-cost structure. However, sector consolidation will deepen, favoring big players while eliminating the smaller ones.
- ❖ We recommend **BUY** for China Shenhua for its leading position in the industry and high transportation capacity, and Yitai Coal for its competitive cost structure that allows for high profitability in upturn and resiliency in downturn

Coal prices have bottomed out. China's thermal coal market bottomed out in mid-Oct, with Bohai-Rim Thermal Coal Prices rebounding by RMB 8/ton on Nov 6, 2013, up 2.64% MoM. The spot prices have rebounded for 4 weeks (up 2.8%) since Oct. 9, 2013, indicating a mild recovery.

In 2014, coal miners will continue to be pressured by domestic oversupply and fierce competition from overseas suppliers. We believe downstream demand from thermal power, steel and cement sectors would lend support to coal prices. But high levels of coal imports will cap coal price and threaten inefficient players.

In the long run, we believe thermal coal will remain the most important energy source in China and its absolute demand will grow. However, sector restructuring will exert differential impacts on the profitability of market players.

China Shenhua (1088 HK, BUY). We like its leading position in the coal industry and high transportation capacity - an important fundamental for business expansion. Its P/B valuation is attractive based on its ROE (~16% for FY13E-14E) and strong bargaining power. TP is set at HK\$ 29.9.

Yitai Coal (3984 HK, BUY). Yitai Coal's strength lies on its competitive unit cost that is the lowest among its H-share peers and high GP margin (39.19% in 9M13, the highest among H-share peers). Its present P/B valuation is also attractive on expected ROE of 25~26% for FY14E-16E. TP is set at HK\$16.29

China Coal (1898 HK, HOLD). It will benefit from sector restructuring and increased government support. Growing cost, however, is our biggest concern. Its mid-single digit ROE justifies the stock to trade at deep discount to book value. TP is set at HK\$ 4.11

Yanzhou Coal (1171 HK, SELL). We believe its current valuation is overly optimistic, considering its less-qualified coalmines and reducing demand from downstream steel sector. The stock is overvalued even after we raised its TP to HK\$ 5.82

Risk factors: 1) Further declines in coal prices; 2) Supply-demand imbalance; 3) Business cycles of downstream industries; 4) Policy and regulation risks.

Sector Valuation Summary (data as of Nov 12, 2013)

Company	Ticker	Rating	Price (HK\$)	TP (HK\$)	FY13E P/E(x)	FY14E P/E (x)	FY13E P/B (x)	FY14E P/B (x)	FY13E Yield (%)	FY14E Yield (%)
China Shenhua	1088 HK	BUY	24.05	29.90	8.58	7.64	1.30	1.14	4.55	5.11
China Coal	1898 HK	HOLD	4.71	4.11	9.52	8.58	0.54	0.54	2.99	3.31
Yanzhou Coal	1171 HK	SELL	7.46	5.82	15.39	8.33	0.61	0.58	2.01	3.72
Yitai Coal	3948 HK	BUY	14.68	16.29	8.05	6.03	1.64	1.39	3.71	4.95

Source(s): Companies, ABCI Securities estimates



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Thermal coal market highlights

Short and Mid-term perspectives

- ❖ **Short-term demand.** Coal inventory at QHD port fell to 5.61mnt on Nov 2, 2013, down 23.8% compared to its peak (7.36mnt) on July 27, 2013. This indicates a potential re-stocking in the coming peak season (Oct-Feb).
- ❖ **Short-term supply.** We believe overcapacity in China's thermal coal industry will persist in the near future, and imported coal will remain at high levels. These will keep spot prices of thermal coal at low levels.
- ❖ **Coal prices rebounded-but sharp rises are unlikely.** The Bohai-Rim steam coal price index rebounded for four consecutive weeks - a good sign for coal producers as they are negotiating with IPPs on the 2014 contract prices. However, the subdued economic growth, weak downstream demand, fierce competition and increasing coal imports continue to put a cap on domestic coal prices.
- ❖ **Implications on coalminers.** Profitability of coalminers depends heavily on sales volume and cost control. Cost efficiency is the key to sustain profitability while transportation ability is important to sales growth.

Long-term perspectives

- ❖ **Absolute consumption of thermal coal will increase.** China is pursuing development of renewable energy. However, we believe thermal coal will continue to be the dominant form of energy used in China in coming decade due to its high safety and low cost compared to renewable energy sources. The overall consumption volume will continue to expand steadily, though the growth momentum could be slower than before.
- ❖ **Large players will gain more shares.** China coal industry is undergoing the process of consolidation. Outdated production capacities are eliminated and entry barriers are raised. All these will help eliminate excess supply and allow large players to gain more market shares.
- ❖ **Overall profitability may decrease but large players will continue to thrive.** GDP growth is slowing in China as the government prioritizes to transform itself into a more sustainable economy. Although the overall profitability of the thermal coal sector is expected to decline, coal suppliers with low production costs and high transportation capacity will remain profitable in the coming years.
- ❖ **Easing transportation bottleneck to reduce demand for coal imports.** In the U.S., consumption of shale gas is reducing demand for coal and the international coal prices are pressured as a result. Coal imports will continue to be a key factor affecting coal prices in China. However, China's Mengxi-Huazhong Railway (MHR) - a major north-to-south coal line that is scheduled to commence operation in 2017, may significantly reduce the logistic costs for domestic coal suppliers, rendering the foreign coal imports less attractive in price.



Stock Picks

- ❖ **China Shenhua, BUY.** The most competitive player among our coal universe. Its self-owned national railway network helps keep transportation cost at low levels. Its thermal power business also provides a solid backup for its coal sales and hedges against coal price volatility. With the expected recovery in FY14E EPS and the potential rise in coal spot prices in 4Q13, we believe the counter is currently undervalued. Maintain **BUY**.
- ❖ **China Coal, Hold.** China Coal's unit cost went up by ~2% between June and Sep 2013. Although the Group achieved significant YoY sales growth for 9M13, its competition with Shenhua (in 3Q13) has resulted in lower ASPs and consequently, revenue and profit margins suffered. We believe the counter is valued at present and upside is limited. Maintain **HOLD**.
- ❖ **Yanzhou Coal, SELL.** In 9M13, the counter enlarged the proportion of imported coal sales and significantly reduced its unit production cost in Shandong headquarter/ Yancoal Australia by 19.53%/14.66% YoY. However, we believe such cost reduction measures are unsustainable. Maintain **SELL**.
- ❖ **Yitai Coal, BUY.** Yitai Coal has the lowest unit cost and the highest GPM and ROE among its H-share peers, which support its relatively higher valuation despite a lackluster market. The stock is currently trading at 1.39x FY14E P/B, which we deem attractive. We believe the negatives have already been priced in. Upgrade to **BUY**.

Thermal coal market Overview

Short & Mid-term perspective

Short-term supply. Overcapacity of coal production in China's thermal coal market will persist in the near future, and import coal will remain at high levels despite its growth momentum was fading. Thus, spot prices will be pressured.

Coal price rebounded, but a sharp increase is unlikely. The Bohai-Rim steam coal price index rebounded for four consecutive weeks - a good sign before coalminers as they are bargaining with IPPs for the long-term contracts in 2014. However, the mild growth expected in the economy, weak downstream demand, fierce peer competition and increasing coal imports continue to impede recovery in domestic coal prices.

Implication on coalminers. Profitability of coalminers largely depends on sales volume and cost control. Cost-efficiency is the key to sustain profitability while the transportation ability is important to sales growth. Companies with high cost-efficiency and strong transportation ability are likely to maintain their profitability amid industry consolidation.

Near-term positive factors

i) **Coal inventory at QHD port slumped** to 5.61mnt on Nov 2, 2013, down 23.8% compared with its peak at 7.36mnt on July 27, 2013, indicating a potential re-stocking in the peak season (Oct-Feb).

ii) **Thermal coal spot price bottomed out** in mid-Oct, with Bohai-Rim Thermal Coal Prices rebounding for four consecutive weeks (up 2.8%) since Oct. 9, 2013 and reached RMB8/ton on Nov.6, 2013 (up 2.64% MoM). The uptrend in spot prices, albeit mild, is suggesting a mild recovery in the peak season (Oct-Feb).

This is a good sign for coalminers, esp. when they are negotiating with the IPPs on the coal contracts for 2014. However, the mild economic growth expected for 2014, lukewarm downstream demand, fierce competition and increasing coal imports remain as major barriers to meaningful recoveries in domestic coal prices.

iii) **China's manufacturing PMI and non-manufacturing PMI in Oct 2013 were 51.4 and 56.3 - the best readings so far this year.** The improving PMI data indicated an economic hardlanding is unlikely. We believe the domestic economy will continue to be boosted further by the government's effort to enhance growth as well as the improving global sentiment.

iv) **China's hydropower output dropped** significantly in 2H13 compared to 2012. We predict that the hydropower output will drop further in the coming winter.

Near-term negative factors

i) On-grid power tariff cut and more stringent environmental policies for thermal power plants have been implemented recently. To avoid significant decline in profitability, **power plants struggle to transfer the cost burden to coalminers** (by forcing the latter to reduce prices). The IPPs will continue to use coal imports coal as their bargaining chip to negotiate for lower prices.

ii) Overseas coal prices recover only slightly. As long as **coal imports remain at high levels**, domestic spot prices will not demonstrate any meaning recoveries.

Coal price-both upside and downside are limited. We believe the downside risks of the spot coal prices are now limited as the foreign-domestic price

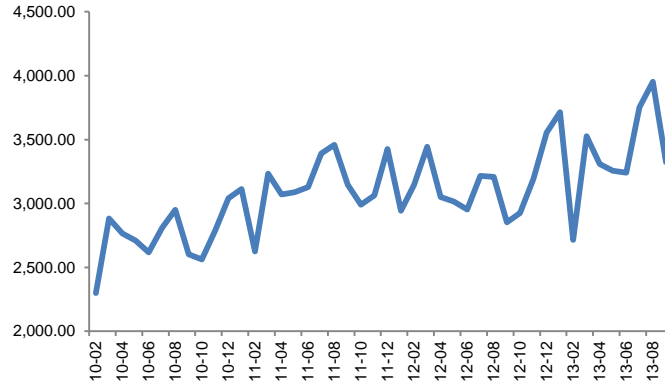


difference narrows and arbitrage profit has been squeezed significantly since the start of 4Q13. Besides, with an increasing number of foreign and domestic coal producers exiting the market, the likelihood of another price war is low. However, upside catalysts supporting a sharp rebound are also few and scattered. Thus, we remain **NEUTRAL** on the sector.

Thermal coal demand – An overview

Thermal power output fell in Sep 2013 after a significant rebound in July/Aug 2013. We predict another rebound in 4Q13

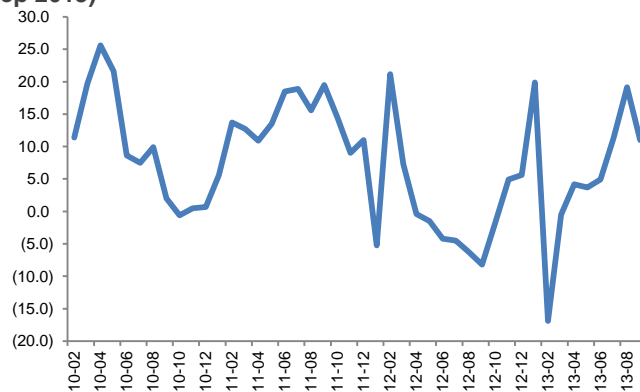
Exhibit 1: China's monthly thermal power output (100mn kwh) (up to Sep 2013)



Source(s): Wind, ABCI Securities

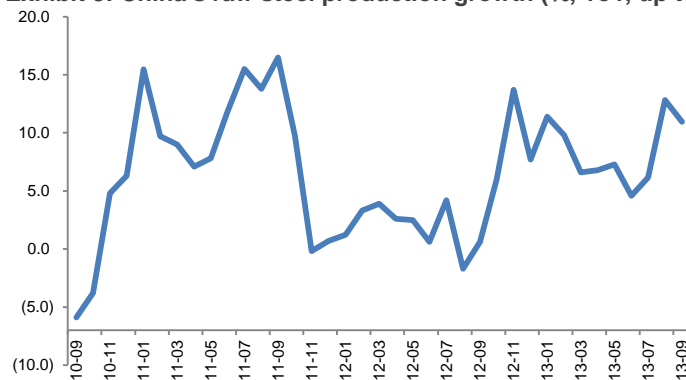
We expect thermal power output to rebound in the coming peak season (Oct-Feb), providing support for coal demand and prices in the near future

Exhibit 2: China's monthly thermal power output growth (% YoY) (up to Sep 2013)



Source(s): Wind, ABCI Securities

Exhibit 3: China's raw steel production growth (% YoY, up to Sep 2013)



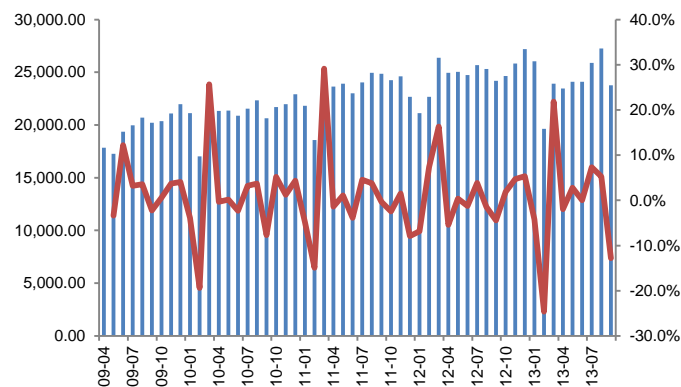
Source(s): Wind, ABCI Securities

Exhibit 4: China Economic Indicators

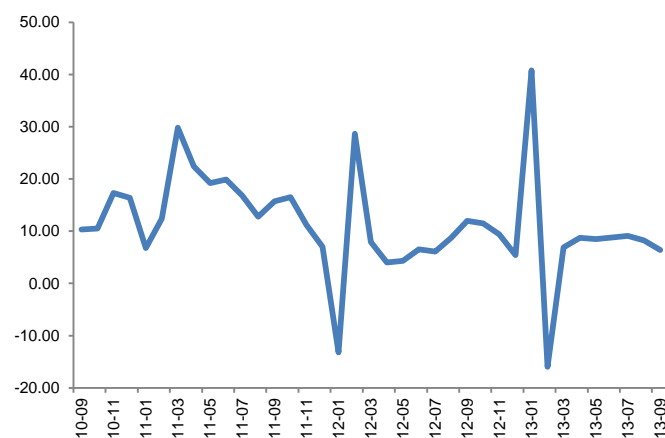
China Economic Indicators													
	2012			2013									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct*
Real GDP (YoY %)	---	---	7.9	---	---	7.7	---	---	7.5	---	---	7.8	---
Export Growth (YoY %)	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	2.3
Import Growth (YoY %)	2.4	0	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.2
Trade Balance (USD/bn)	32.11	19.63	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	25.7
Retail Sales Growth (YoY %)	14.5	14.9	15.2		12.3	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.4
Industrial Production (YoY %)	9.6	10.1	10.3		9.9	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.1
PMI - Manufacturing (%)	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4
PMI - Non-manufacturing (%)	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3
FAI (YTD) (YoY %)	20.7	20.7	20.6		21.2	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.3
CPI (YoY %)	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.1
PPI (YoY %)	(2.8)	(2.2)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.0)
M2 (YoY %)	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.2
New Lending (RMB/bn)	505.2	522.9	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	600

Source(s): Wind, ABCI Securities estimates

*ABCI Securities estimates (excluding PMI - Manufacturing and PMI - Non - Manufacturing)

Exhibit 5: China's thermal coal consumption (10k tons, left) and monthly change (%), right) (up to Sep 2013)


Source(s): Wind, ABCI Securities

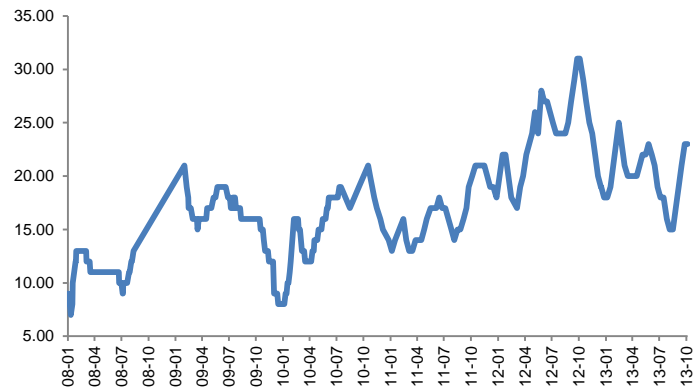
Exhibit 6: China's monthly cement output growth rate (percentage) (up to Sep 2013)


Source(s): Wind, ABCI Securities

Downstream demand from cement sector has recovered mildly in 2013

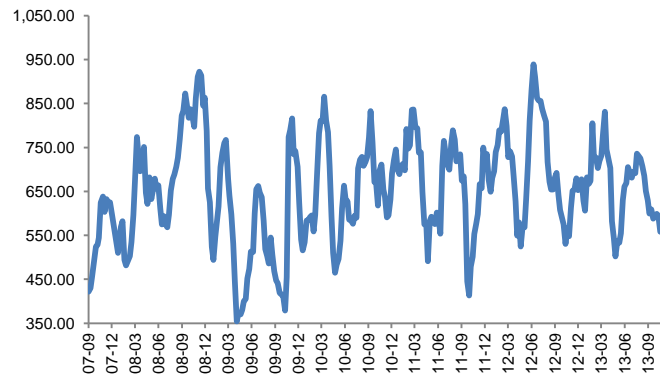


Exhibit 7: Coal availability (measured in no. of days) among China's main IPPs has reduced recently (up to Sep 2013)



Source(s): Wind, ABCI Securities

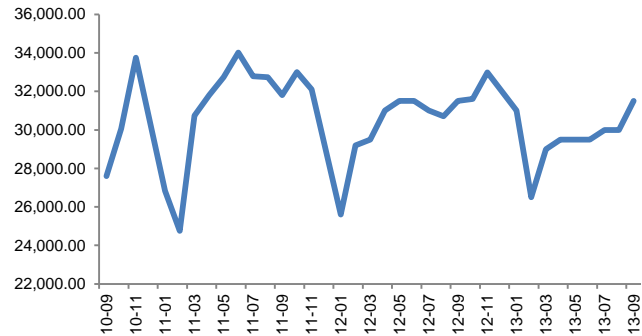
Exhibit 8: Coal inventory at QHD port (10k tonnes, up to Nov 2, 2013)



Source(s): Wind, ABCI Securities

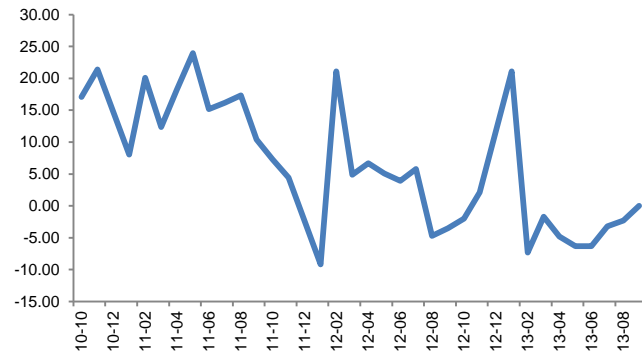
Coal inventory at QHD port dropped in Aug/Sep 2013, indicating a potential restocking in the peak season (Oct-Feb)

Thermal coal supply - An overview

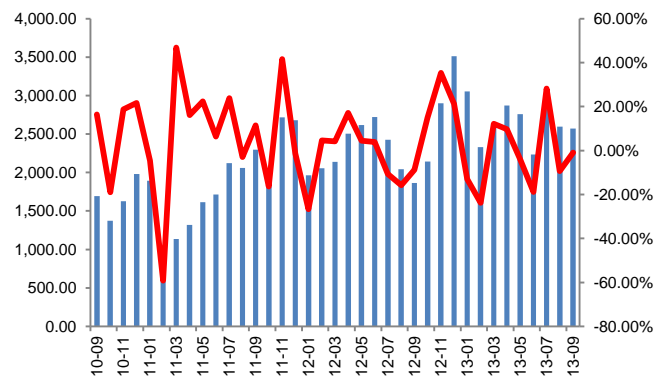
Exhibit 9: China's raw coal output (10k tonnes, up to Sep 2013)


Source(s): Wind, ABCI Securities

Raw coal output recorded negative YoY growth rate in Feb-Aug 2013, an important factor to trigger recovery of coal prices in the next few months.

Exhibit 10: China's raw coal output growth (% YoY, up to Sep 2013)


Source(s): Wind, ABCI Securities

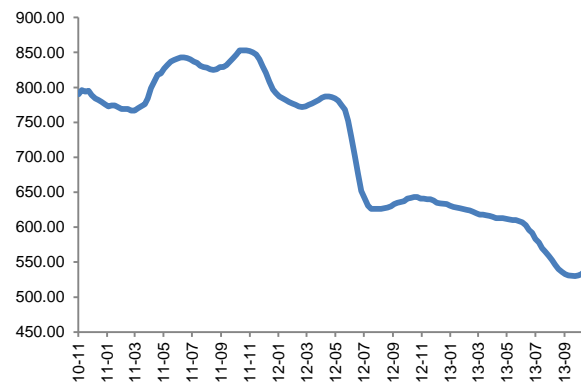
Exhibit 11: China's imported coal volume (10k tonnes, left) and monthly growth (% MoM, right) (up to Sep 2013)


Source(s): Wind, ABCI Securities

Thermal coal prices - overview

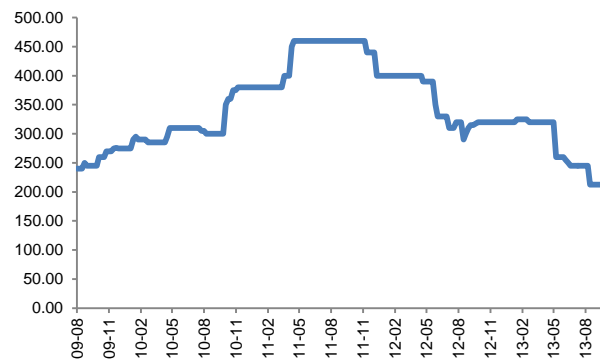
Thermal coal spot price rebounded for four consecutive weeks up to Nov 6, 2013. We believe the worst has been over

Exhibit 12: Bohai-Rim steam coal price index (RMB/ton, up to Nov.6 2013)



Source(s): Wind, ABCI Securities

Exhibit 13: Mine mouth coal price in Dongsheng (RMB/ton, up to Nov 4, 2013)



Source(s): Wind, ABCI Securities

Exhibit 14: Australia BJ thermal coal price (USD/tonne) (up to Oct 31, 2013)



Source(s): Wind, ABCI Securities

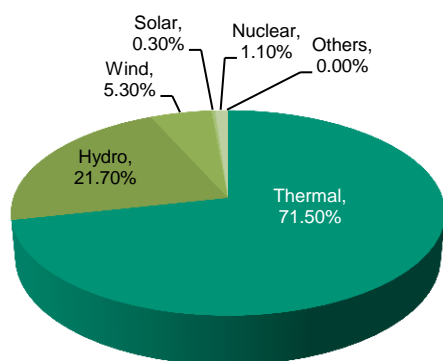
Long-term perspectives

Government's support for clean energy and consumption of shale gas in the U.S., which drive down prices of coal imports, indicate that growth in the domestic thermal coal sector will slow. We, however, refrain from taking a too bearish stance on the long-term development of the sector, since coal-fired power will still be the dominant form of energy used in the next decade.

Absolute demand will increase despite slowing growth

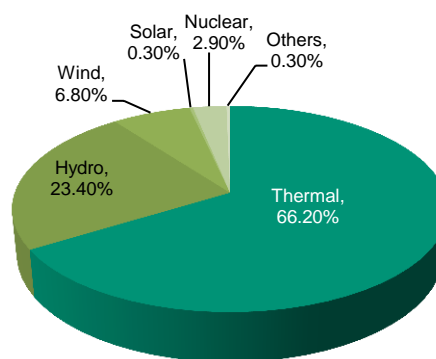
Based on the 12th Five-Year Plan, China plans to expand thermal power capacity by 7.8% and national electricity output by 8% on an annual basis, indicating that the absolute demand for thermal coal will still be growing in 2011-15. The weight of thermal power in the overall power generation, however, will diminish as the Chinese government is targeting to raise the installed capacity of non-fossil fuel power to 30% by 2015 and non-fossil fuel consumption to 11.4%/15.0% by 2015/2020, as compared to 6% in 2010.

Exhibit 15: Installed capacity breakdown as at end-2012



Source(s): NEA

Exhibit 16: Installed capacity breakdown estimates by end-2015



Source(s): NEA

We believe coal will remain as the dominant energy source in China for the next decade, considering its high safety and low cost when compared to other renewable energy. The volume of thermal coal consumption will continue to grow steadily.

Exhibit 17: Main goals of energy development in China's 12th Five-Year Plan

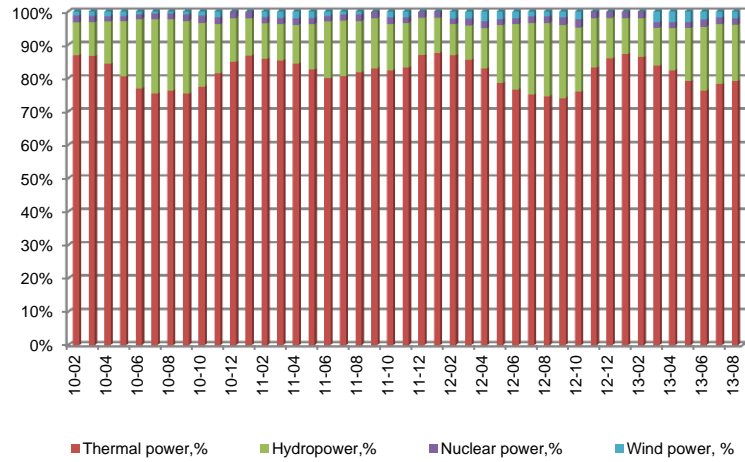
Index	Unit	2010A	2015E	Annual Growth
Overall electricity output	trillion kwh	4.2	6.15	8.00%
Coal production capacity	100mnt	32.4	41	4.80%
Total installed capacity of electricity	100mn kwh	9.7	14.9	9.00%
With: Thermal Power	100mn kwh	6.6	9.6	7.80%
Hydropower	100mn kwh	2.2	2.9	5.70%
Nuclear power	10k kwh	1082	4000	29.90%
Natural gas power	10k kwh	2642	5600	16.20%
Wind power	10k kwh	3100	10000	26.40%
Solar power	10k kwh	86	2100	89.50%

Source(s): www.gov.cn, ABCI Securities



Thermal power will remain the dominant energy source in China

Exhibit 18: The weight of different electricity sources in China (up to Aug 2013)



Source(s): Wind, ABCI Securities



Large players will gain more shares from the growing market

China is eliminating small and medium coalminers and fostering growth in large, competitive coal players. The 12th Five-Year Plan stipulated that the overall coal production should be kept below 3.9bnt by 2015, indicating a 5-Year CAGR of 2.6% over 2011-15. However, coal producers will be differentially impacted. China has been promoting consolidations in the coal industry by shutting down outdated and obsolete capacities.

China plans to form ten coal enterprises with a production capacity of 100 mnt, and 10 companies with a production capacity of 50 mnt. The total output of these enterprises will constitute more than 60% of the national output by the end-2015.

We estimate that the market share of the top 20 coal companies will improve to over 63% in FY15E (vs. 50% in FY10). Large coalminers (defined by coal production, coal sales and reserves in China) will benefit from the sector consolidation.

Decreased sector growth will have different impacts on firms

As China accepted a lower GDP growth for the next few years, growth of the thermal coal sector is expected to slow. Coal players, with differences in reserve quality, transportation capacity, financial and management efficiency, will be impacted differently. While profitability will be declining in smaller players, large players will benefit from increased market shares.

In 2013, China has lifted the dual pricing system and coal producers can raise/reduce their ASP independently without being capped by the government guidelines. This means that coal producers with more bargaining power, higher coal quality and stronger logistic capacity will have higher profit margins in the future.

Resolving transportation bottleneck to reduce demand for coal import

China's thermal coal sector is facing intensifying competition from overseas players. In particular, shale gas revolution in the U.S. reduces the demand for coal and has driven down the international coal prices.

The unit cost of coal from major domestic coalfields, such as Inner Mongolia, is still lower than that of the foreign coal imports. Due to the geographical mismatch of resource location and consumption, insufficient transportation capacity of the coal suppliers have caused some domestic users to rely on coal imports.

Transportation capacity has always been a constraint in the domestic coal industry. We believe coal imports will continue to be a key factor affecting China's coal prices in the medium term. However, we believe coal imports will decline when China if the logistics issue can be resolved.

In 2012, China announced a plan to build the Mengxi-Huazhong Railway (MHR), which is a major north-to-south coal-line that is scheduled to commence in 2017. We believe the expanded transportation network will significantly reduce the need for coal imports, and companies with high-quality coal resources in Inner Mongolia will benefit from MHR.

Peer Comparison

Exhibit 19: Peer comparison – Valuation

EPS(RMB)	PX	FY11	FY12	FY13E	FY14E	FY15E	FY16E
1088 HK	24.05	2.30	2.46	2.21	2.48	2.76	3.04
1898 HK	4.71	0.75	0.67	0.39	0.43	0.47	0.52
1171 HK	7.46	1.82	1.26	0.38	0.71	0.82	0.92
3948 HK	14.68	2.36	1.98	1.44	1.92	2.35	2.70
Avg.	12.73	1.81	1.59	1.10	1.38	1.60	1.80
P/E(x)		FY11	FY12	FY13E	FY14E	FY15E	FY16E
1088 HK		8.25	7.71	8.58	7.64	6.87	6.23
1898 HK		4.94	5.56	9.52	8.58	7.81	7.10
1171 HK		3.24	4.65	15.39	8.33	7.12	6.39
3948 HK		4.90	5.83	8.05	6.03	4.91	4.27
Avg		5.33	5.94	10.38	7.65	6.68	6.00
BVPS(RMB)		FY11	FY12	FY13E	FY14E	FY15E	FY16E
1088 HK		11.35	12.90	14.62	16.54	18.68	21.04
1898 HK		6.22	6.54	6.82	7.13	7.47	7.84
1171 HK		8.67	9.16	9.58	10.07	10.65	11.29
3948 HK		6.02	6.06	7.03	8.32	9.90	11.72
Avg		8.06	8.67	9.51	10.51	11.67	12.97
P/B(x)		FY11	FY12	FY13E	FY14E	FY15E	FY16E
1088 HK		1.67	1.47	1.30	1.14	1.01	0.90
1898 HK		0.60	0.57	0.54	0.52	0.50	0.47
1171 HK		0.68	0.64	0.61	0.58	0.55	0.52
3948 HK		1.92	1.91	1.64	1.39	1.17	0.99
Avg		1.22	1.15	1.02	0.91	0.81	0.72
DIV(RMB)		FY11	FY12	FY13E	FY14E	FY15E	FY16E
1088 HK		0.90	0.96	0.86	0.97	1.08	1.19
1898 HK		0.22	0.21	0.11	0.12	0.14	0.15
1171 HK		0.57	0.36	0.12	0.22	0.26	0.29
3948 HK		1.35	1.25	0.43	0.57	0.70	0.81
Avg		0.76	0.70	0.38	0.47	0.54	0.61
DIV/Px (%)		FY11	FY12	FY13E	FY14E	FY15E	FY16E
1088 HK		4.75	5.07	4.55%	5.11	5.69	6.27
1898 HK		5.80	5.66	2.99%	3.31	3.64	4.01
1171 HK		9.70	6.13	2.01%	3.72	4.35	4.85
3948 HK		11.68	10.81	3.71%	4.95	6.07	6.98
Avg		7.98	6.92	3.32%	4.27	4.94	5.53
ROE (%)		FY11	FY12	FY13E	FY14E	FY15E	FY16E
1088 HK		21.16	20.16	16.04	15.91	15.65	15.29
1898 HK		12.72	10.45	5.83	6.19	6.51	6.82
1171 HK		22.33	14.06	4.04	7.18	7.96	8.39
3948 HK		46.11	32.86	21.96	24.98	25.83	25.02
Avg		25.58	19.38	11.97	13.57	13.99	13.88
EPS Growth (%)		FY11	FY12	FY13E	FY14E	FY15E	FY16E
1088 HK		18.08	6.55	(10.13)	12.28	11.24	10.19
1898 HK		0.00	34.08	(11.18)	(41.57)	10.87	9.95
1171 HK		(3.81)	(30.34)	(69.82)	84.83	16.95	11.51
3948 HK		(23.34)	(15.99)	(27.57)	33.39	22.76	14.95
Avg		(2.27)	(1.43)	(29.68)	22.23	15.46	11.65
Payout Ratio (%)		FY11	FY12	FY13E	FY14E	FY15E	FY16E
1088 HK		33.90	33.47	33.47	33.47	33.47	33.47
1898 HK		26.27	29.09	26.75	26.75	26.75	26.75
1171 HK		31.40	28.47	31.00	31.00	31.00	31.00
3948 HK		25.71	59.81	29.83	29.83	29.83	29.83
Avg		29.32	37.71	30.26	30.26	30.26	30.26

Source(s): Companies. ABCI Securities estimates



Stock Picks

We believe large coalminers with lower unit costs and higher transportation capacity will outperform in 2014 as they can gain more market shares in the ongoing sector consolidation.

Based on our firm-specific analysis, reports of China's media and our own channel check, China Shenhua has the most bargaining power and the second lowest unit cost among the four listed H-share peers. Considering its present valuation at 8.58x/7.64x FY13E/14E P/E, it remains our top pick in the thermal coal sector.

Based on our firm-specific analysis, we suggest:

- ❖ **BUY for China Shenhua** (1088 HK) based on its leading position in the industry. Its valuation is relatively low considering its high ROE in FY14E, strong bargaining power and transportation capability. TP is set at HK\$ 29.9
- ❖ **HOLD for China Coal** (1898 HK) for it will benefit from sector consolidation and government support. Its growing cost is our biggest concern. TP is set at HK \$4.11
- ❖ **SELL for Yanzhou Coal** (1171 HK) as present valuation is overly optimistic, considering its less-qualified coal mines and declining demand from downstream iron sector. TP is set at HK\$5.82
- ❖ **HOLD for Yitai Coal** (3948 HK). Despite its highly competitive unit cost, high GPM, and a growing number of coal-to-oil projects, we believe the positives are largely priced in. TP is set at HK\$ 16.29

Exhibit 20: Peer comparison by operating performance

Unit Cost, RMB/ton	1H12	1H13	YoY, %	9M12	9M13	YoY, %
China Shenhua	121.5	122.2	0.6	121.2	128.4	5.94
China Coal	239	216.15	-9.6	217.58	216.97	-0.28
Yanzhou Coal	327.06	316.15	-3.3	335.08	269.65	-19.53
Yitai Coal	93.53	87.06	-6.9	NA	NA	
Sales Volume, mnt						
China Shenhua	79.1	79.9	1.0	325.2	359	10.39
China Coal	54.4	53.47	-1.7	80.89	81.81	1.14
Yanzhou Coal	42.472	45.375	6.8	65.812	73.77	12.09
Yitai Coal	41.05	29.35	-28.5	58.45	44.75	-23.44
ASP, RMB/ton						
China Shenhua	420.5	385.4	-8.3	407.5	372.3	-8.64
China Coal	496	416	-16.1	476	406	-14.71
Yanzhou Coal	645.52	538.67	-16.6	611.83	525.95	-14.04
Yitai Coal	436	372	-14.7	NA	NA	
Net profit, RMB mn						
China Shenhua	26,729	24,340	-8.9	38,767	34,299	-11.53
China Coal	5,182	3,221	-37.8	7,105	3,700	-47.92
Yanzhou Coal	5,223	-2,073	-139.7	4,742	-589	-112.41
Yitai Coal	4,271	2,177	-49.0	5,828	3,060	-47.50

Source (s): Company, ABCI Securities



November 13, 2013
Company Report
Rating: BUY
TP: HK\$ 29.90

H-Share price (HK\$) 24.05
Est. share price return 24.33%
Est. dividend yield 4.55%
Est. total return 28.88%

Previous Rating & TP BUY; HK\$ 29.66
Previous Report Date Aug. 27, 2013

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

Key Data

52Wk H/L(HK\$)	35.45/18.10
Issued shares (mn)	19,890
H-Shares (mn)	3,399
A-Shares (mn)	16,491
Market cap	
H-shares (HK\$ mn)	81,736
A-Shares (HK\$ mn)	266,495
3-mth avg daily turnover (HK\$ mn)	470.2
Major shareholder(s) (%):	
Shenhua Group Ltd.	73.01

Source(s): Company, Bloomberg, ABCI Securities

1H13 Breakdown of segment profit from operation* (%)

Coal	57
Power	22
Transportation	21

Source(s): Company, ABCI Securities

*Segment profit from operation represents the revenue less COGS, SG&A expenses and assets impairment

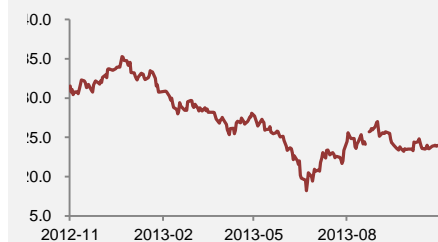
Share performance (%)

	Absolute	Relative*
1-mth	2.34	2.52
3-mth	(6.05)	(9.75)
6-mth	(13.18)	(8.25)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

China Shenhua (1088 HK)
Market leader with transportation prowess

- China Shenhua is the leading coal producer in China with strong bargaining power. The low unit cost, expanded power business, and strong government support will continue to strengthen its position in the market
- Shenhua's new project, the Huangda Railway will expand its profitable railway business in Shandong province. Its parent company's railway project in Mongolia will further enhance its logistic capacity
- With its attractive valuation at 1.14x FY14E P/B at present and the expectation of solid FY13E/14E EPS, we maintain **BUY** with TP at HK\$29.90, reflecting 9.5x FY14E P/E and 1.42x FY14E P/B

Market leader with strong bargaining power. The Group increased spot prices by RMB 4~11/ton in Nov. Such move was followed by China Coal (1898 HK) and other major coal producers in China. Accordingly, Bohai-Rim thermal coal prices increased RMB 8/ton on Nov 6, the highest jump since 2012. This recovery in spot price is favorable to its negotiation with the IPPs on the 2014 coal contract price.

Transportation capacity to grow on expanded railway network. Shenhua's parent company (Shenhua Group Ltd.) was reported to have made rapid progress in bidding the world's largest deposit of high-quality coking coal in Mongolia. It has signed a memorandum of understanding with Mongolia's state-owned railway operator to build cross-border railways for delivery of coking coal. The Group is likely to expand its profitable railway business and coke coal sales. Separately, the Group is about to commence construction of the Huangda Railway, expanding its coal-line railway network in Shandong province. The expanded railway coverage will help the Group integrate its overseas coal sources with domestic downstream demands.

Thermal power business expected to grow and serve as good buffer in a lukewarm coal market. The Group's total installed capacity of power generators reached 41,798 MW by June 30, 2013, exceeding most of the Hong Kong-listed Chinese IPPs and contributed ~29% to total revenue in FY12. The rebounded spot coal price reduces the possibility of substantial cut in power tariff in the near term. We believe the expanded power business will reduce the downside risk of coal prices for the Group.

Maintain BUY with TP at HK\$29.9. Shenhua is trading at 1.14x FY14E P/B. Considering its low unit cost, high ROE and expanded transportation network and power business, we believe the counter is undervalued. Maintain **BUY** with TP at HK\$29.66, reflecting 9.5x FY14E P/E and 1.42x FY14E P/B.

Risk factors: 1) Further declines in coal prices and electricity tariffs; 2) Supply-demand imbalance; 3) Business cycles of downstream industries; 4) Surging costs; 5) FY13E DPS may drop.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	209,225	250,260	258,899	286,124	309,162
Chg (% YoY)	32.70	19.61	3.45	10.52	8.05
Net Profit (RMB mn)	45,846	48,858	43,899	49,292	54,831
Chg (% YoY)	18.06	6.57	(10.15)	12.28	11.2
EPS (RMB)	2.31	2.46	2.21	2.48	2.76
Chg (% YoY)	18.08	6.55	(10.13)	12.28	11.24
BVPS (RMB)	11.47	12.90	14.62	16.54	18.68
Chg (% YoY)	11.26	12.44	13.29	13.17	12.95
P/E (x)		7.71	8.58	7.64	6.87
P/B (x)		1.47	1.30	1.14	1.01
DPS (RMB)	0.90	0.96	0.86	0.97	1.08
Yield (%)		5.07	4.55	5.11	5.69
ROE (%)	21.16	20.16	16.04	15.91	15.65
ROA (%)	11.78	11.31	9.36	9.81	10.05

Source(s): Bloomberg, ABCI Securities estimates



Exhibit 1: 9M13 Performance and Results Highlights

As at Sep 30	9M12	9M13	YoY, %
Basic earnings per share	1.949	1.724	(11.54)
Net cash generated from operating activities per share Current period (RMB mn)	2.91	1.77	(39.18)
Revenues	178,367	197,467	10.71
Profit before income tax (mn RMB)	53,122	52,098	(1.93)
Profit attributable to equity shareholders of the Company	38,767	34,299	(11.53)
Net cash generated from operating activities	57,844	35,171	(39.20)
Total assets (RMB mn)	457,367	496,584	8.57
Total liabilities (RMB mn)	150,810	169,496	12.39
Total equity (RMB mn)	306,557	327,088	6.70
Of which: Equity attributable to equity shareholders of the Company (RMB mn)	256,589	271,097	5.65
Shareholders' equity per share (RMB/share)	12.9	13.63	5.66

Source(s): Company

Exhibit 2: 9M13 Major operating results

As at Sep 30	9M12	9M13	YoY, %
Commercial coal production (mnt)	230.9	236.8	2.56
Coal sales (mnt)	329.9	366.3	11.03
Of which: Export (mnt)	2.8	1.9	(32.14)
Import (mnt)	5.7	7.4	29.82
Transportation turnover of self-owned railways (Bn tonne kilometers)	129.5	155.2	19.85
Seaborne Coal (mnt)	147	161.4	9.80
Seaborne coal at Huanghua Port (mnt)	67.2	92.4	37.50
Seaborne coal at Shenhua Tianjin Coal Dock (mnt)	20.2	22.8	12.87
Shipping volume (mnt)	73.6	83.4	13.32
Shipment turnover (Bn tonne nautical miles)	62.3	81.7	31.14
Gross power generation (Bn kwh)	155.63	169.49	8.91
Total power output dispatch (Bn kwh)	144.8	158.01	9.12

Source(s): Company

Exhibit 3: Comparison of China Shenhua and major Hong Kong-listed IPPs (as of June 30, 2013)

Company Name	Tick	power output dispatch, 100GWh	total installed capacity of power generators, MW
China Shenhua	1088.HK	983	41,798
Huaneng Power	0902.HK	1,413	66,341
Datang Power	0991.HK	878	38,629
China Res Power	0836.HK	837	25,271
Huadian Power	1071.HK	818	34,463
China Power	2380.HK	270	12,963

Source(s): Company



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	209,225	250,260	258,899	286,124	309,162
Coal revenue	138,263	165,989	164,958	177,473	192,033
Power revenue	61,204	71,096	80,310	93,588	100,854
Other revenues	9,758	13,175	13,630	15,063	16,276
Cost of sales	(128,638)	(167,754)	(181,799)	(200,287)	(216,414)
Gross profit	80,587	82,506	77,100	85,837	92,749
SG&A	(11,056)	(12,950)	(11,907)	(10,948)	(10,067)
Other operating expenses, net	(825)	48	48	48	48
Profit from operations	68,706	69,604	65,241	74,937	82,730
Other income/cost/and loss	(1,857)	(1,593)	(1,726)	(1,659)	(1,692)
Pre-tax profit	66,849	68,011	63,515	73,278	81,038
Profits tax	(14,041)	(10,965)	(12,258)	(15,725)	(17,018)
Net profit	52,808	57,046	51,256	57,552	64,020
Profit attributable to:					
Minority interests	6,962	8,188	7,357	8,261	9,189
Equity shareholders of the Company	45,846	48,858	43,899	49,292	54,831
EPS (Basic), RMB	2.31	2.46	2.21	2.48	2.76
Dividend per share, RMB	0.90	0.96	0.86	0.97	1.08

Source(s): Company, ABCI Securities estimates

Financial Ratios (2011A-2015E)

FY Ended Dec 31	2011A	2012A	2013E	2014E	2015E
Profitability ratio (%)					
Gross profit margin	38.52	32.97	29.78	30.00	30.00
EBT margin	31.95	27.18	24.53	25.61	26.21
Net profit margin	21.91	19.52	16.96	17.23	17.74
ROA	11.78	11.31	9.36	9.81	10.05
ROE	21.16	20.16	16.04	15.91	15.65
Cost ratio (%)					
Admin/Sales	5.28	5.17	4.60	3.83	3.26
Effective tax rate	21.00	16.12	19.30	21.46	21.00
Leverage (x)					
Current ratio	1.24	1.05	1.04	1.07	1.20
Quick ratio	1.09	0.91	0.87	0.89	0.98
Cash ratio	0.70	0.49	0.38	0.38	0.40
Total debt/total equity (%)	51.62	49.19	40.47	35.46	29.56
Total debt/total asset (%)	34.04	32.97	28.81	26.18	22.82
Working capital data and Ratios					
Inventory turnover	10.50	11.94	12.02	12.80	12.82
Receivables turnover	16.71	14.88	12.97	13.85	13.87
Payables turnover	5.99	6.20	6.21	7.11	7.56
Days' inventory on hand	34.78	30.58	30.36	28.52	28.48
Days' of sales outstanding	21.84	24.54	28.15	26.35	26.32
Days' payables	60.96	58.87	58.75	51.34	48.26
Cash conversion cycle	-4.34	-3.75	-0.23	3.53	6.54

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Property, plant and equipment	223,329	236,048	271,455	307,405	342,782
Construction in progress	34,384	61,142	64,199	67,409	70,780
Intangible assets	3,610	3,781	3,781	3,781	3,781
Other non-current assets	36,658	45,036	46,801	48,885	50,958
Total non-current assets	297,981	346,007	386,236	427,480	468,301
Inventories	12,939	15,171	15,077	16,221	17,551
Accounts and bills receivable	13,618	20,028	19,904	21,414	23,170
Prepaid expenses and other current assets	12,694	14,480	14,480	14,480	14,480
Cash and cash equivalents	61,652	51,627	34,640	34,624	32,824
Other current assets	7,623	10,054	10,054	10,054	10,054
Current assets	108,526	111,360	94,155	96,793	98,080
Total assets	406,507	457,367	480,391	524,273	566,381
Short-term borrowings and current portion of long-term borrowings	16,489	28,093	16,093	14,726	6,828
Accounts and bills payable	23,763	31,072	27,418	29,245	28,331
Accrued expenses and other payables	39,286	41,423	40,355	40,889	40,622
Current portion of long-term payables	271	283	277	280	279
Income tax payable	7,940	4,686	6,313	5,500	5,906
Total current liabilities	87,749	105,557	90,455	90,639	81,965
Long-term borrowings, less current portion	45,443	39,624	42,534	41,079	41,806
Long-term payables, less current portion	2,346	2,558	2,452	2,505	2,479
Other Non-current liabilities	2,855	3,071	2,963	3,017	2,990
Total non-current liabilities	50,644	45,253	47,949	46,601	47,275
Total liabilities	138,393	150,810	138,404	137,240	129,240
Total equity	268,114	306,557	341,987	387,033	437,141
Non-controlling interests	39,915	49,968	51,298	58,055	65,571
Equity of the firm	228,199	256,589	290,689	328,978	371,570
Book value/share, RMB	11.47	12.90	14.62	16.54	18.68

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before income tax	66,849	68,011	63,515	73,278	81,038
(Increase) decrease in inventories	(714)	(2,232)	94	(1,144)	(1,331)
Decrease in trade and bills receivables	(953)	(6,410)	124	(1,510)	(1,757)
Interest received	978	750	1,175	1,217	1,196
Interest paid	(3,300)	(3,554)	(3,313)	(3,321)	(3,317)
Income tax paid	(11,830)	(14,689)	(12,258)	(15,725)	(17,018)
Other adjusted items	19,919	27,179	16,535	25,716	24,394
Net CF of Operating	70,949	69,055	65,872	78,511	83,206
Capital expenditure	(45,082)	(52,256)	(54,869)	(57,612)	(60,493)
Acquisition of subsidiaries	(1,666)	(1,072)	(1,369)	(1,221)	(1,295)
Others	(8,507)	(8,602)	611	1,156	1,961
Net cash used in investing activities	(55,255)	(61,930)	(55,627)	(57,677)	(59,827)
Proceeds from borrowings	4,691	36,099	20,395	28,247	24,321
Repayments of borrowings	(21,184)	(34,534)	(27,859)	(31,197)	(29,528)
Cash flows from other financing	(14,840)	(18,718)	(19,771)	(17,903)	(19,976)
Net cash from financing activities	(31,333)	(17,153)	(27,235)	(20,853)	(25,182)
Net change in cash	(15,639)	(10,028)	(16,990)	(19)	(1,803)
Cash at the beginning	77,302	61,652	51,627	34,640	34,624
Exchange difference	(11)	3	3	3	3
Cash at the end	61,652	51,627	34,640	34,624	32,824

Source(s): Company, ABCI Securities estimates



November 13, 2013
Company Report
Rating: BUY
TP: HK\$ 16.29

H-Share price (HK\$) 14.68
Est. share price return 10.99%
Est. dividend yield 3.71%
Est. total return 14.7%

Previous Rating & TP HOLD:
HK\$ 16.29
Previous Report Date July 17, 2013

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

Key Data

52Wk H/L (HK\$)	45.70/11.60
Issued shares (mn)	3,254
H Shares (mn)	326
B Shares (mn)	1,328
Unlisted Shares (mn)	1,600
Market cap	
H-shares (HK\$ mn)	4,786
B-shares (US\$ mn)	2,258
3-mth avg daily turnover (HK\$ mn)	3.6
Major shareholder (%):	
Inner Mongolia Yitai Group Co., Ltd.	49.17
Source(s): Company, ABCI Securities	

Revenue composition in FY12 (%)

Coal	94.8
Transportation	0.8
Coal Chemical	4.3
Others	0.1
Source(s): Company, ABCI Securities	

Share performance (%)

	Absolute	Relative*
1-mth	0.55	0.73
3-mth	(11.03)	(14.72)
6-mth	(64.37)	(59.44)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Yitai Coal (3948 HK)
Low cost, high resilience; upgrade to BUY

- Yitai Coal has the lowest unit cost and the highest GPM / ROE among its H-share peers. These justify its high valuation amid a lackluster market
- The Group suffered heavily in the price war in 3Q13, slashing its FY13E EPS. However, with the cessation of the price war and recovery in the spot market in 4Q13, its revenue is expected to rebound
- The stock is currently trading at 1.39x FY14E P/B, which is attractive and we believe the negatives have already been priced in. Upgrade to BUY with TP unchanged at HK\$ 16.29

Business landscape has improved for the Group. Yitai Coal reported a substantial EPS drop in 9M13 (-47%YoY) mainly due to the declines in spot market prices. As its coal resources are located in Inner Mongolia, which is far away from the high-demand regions in eastern China and coastal area, the lack of any self-owned national railways has posed limit on its transportation capacity. With the cessation of price war and recovery of spot market prices in 4Q13, the business landscape has improved for the Group.

Lowest unit cost among peers means resilience in downturn. Yitai enjoyed the lowest unit cost among its H-share peers. Its unit cost is RMB87/ton in 1H13, much lower than China Shenhua (RMB122/ton), China Coal (RMB216/ton) and Yanzhou Coal (RMB316/ton). Its GPM is high at 39.19% in 9M13, while China Shenhua, China Coal and Yanzhou Coal recorded GPMs of 34.96%, 32.77%, and 21.71%, respectively. Despite its 9M13 EPS declined by 47% YoY, the drop was less than that of China Coal (-54%) and Yanzhou Coal (-112%).

Coal spot prices to stabilize in FY14. We believe the thermal coal sector has bottomed out. We expect spot prices will stabilize in FY14, as China Shenhua and China Coal both increased their spot prices, and overseas prices are starting to recover. The Group's low cost, which enable it to price its products more flexibly, will help enlarge sales.

Upgrade to BUY. The stock is currently trading at 1.39x FY14E P/B., higher than the sector average of 0.91x FY14E P/B. However, its FY14E ROE is the highest among peers at 24.98%. We believe the negatives have already been priced in and downside is limited. Upgrade to **BUY** with TP at HK\$16.29 unchanged, reflecting 1.5x FY14E P/B.

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

Results and Valuation

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Revenue (RMB mn)	13,854	27,003	31,584	29,325	33,090
Chg (% YoY)	35.1	94.91	16.96	(7.15)	12.84
Net Profit (RMB mn)	5,015	7,683	6,454	4,675	6,236
Chg (% YoY)	64.8	53.20	(15.99)	(27.57)	33.39
EPS (RMB)	3.08	2.36	1.98	1.44	1.92
Chg (% YoY)	64.7	(23.34)	(15.99)	(27.57)	33.39
BVPS (RMB)	8.45	6.02	6.06	7.03	8.32
Chg (% YoY)	44.6	(28.79)	0.68	16.01	18.33
P/E (x)	—	4.90	5.83	8.05	6.03
P/B (x)	—	1.92	1.91	1.64	1.39
DPS (RMB)	—	1.35	1.25	0.43	0.57
Yield (%)	—	—	10.81	3.71	4.95
ROE (%)	—	46.11	32.86	21.96	24.98
ROA (%)	—	22.85	15.60	11.66	13.90

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2010A-2014E)

FY Ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Revenue	13,854	27,003	31,584	29,325	33,090
Coal	13,360	na	29,956	27,620	31,205
Tran Operations, RMB mn	435	na	243	250	258
Coal related chemical, RMB mn	-	na	1,362	1,430	1,602
Others, mn RMB	58	na	23	25	26
Cost of sales	(5,999)	(14,937)	(20,454)	(20,527)	(22,170)
Gross profit	7,855	12,066	11,129	8,797	10,920
Other income	152	345	619	482	551
SG&A	(1,495)	(2,308)	(2,752)	(2,844)	(2,882)
Other operating expenses, net of	(239)	(265)	(480)	(374)	(428)
Share of profits/losses of associates	3	20	34	27	31
Pre-tax profit	6,275	9,857	8,551	6,088	8,190
Profits tax	(959)	(1,628)	(1,399)	(996)	(1,340)
Net profit	5,316	8,229	7,151	5,092	6,850
Profit attributable to:					
Minority interests	301	546	697	417	614
Equity shareholders of the Company	5,015	7,683	6,454	4,675	6,236
EPS (Basic)-IPO adjusted	3.08	2.36	1.98	1.44	1.92
DPS, RMB	1.35	1.35	1.25	0.43	0.57

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2010A-2014E)

As of Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Property, plant and equipment	17,698	21,610	24,269	25,004	26,854
Available-for-sale investments	2,108	2,871	3,808	3,808	3,808
Intangible assets	17	18	51	51	51
Other assets	821	1,295	2,054	1,673	1,865
Total non-current assets	20,644	25,794	30,183	30,536	32,578
Inventories	460	1,015	873	1,025	1,163
Trade and bills receivable	573	1,408	2,690	2,225	3,011
Prepaid expenses and other current assets	454	934	1,277	1,100	1,290
Restricted cash		27	30	29	29
Cash and cash equivalents	0	4,453	6,315	5,165	6,805
Current assets	5,230	7,837	11,185	9,544	12,299
Total assets	25,874	33,631	41,367	40,080	44,877
Total current liabilities	(3,465)	(5,588)	(10,395)	(8,218)	(10,430)
Trade and bills payables	(919)	(762)	(1,345)	(1,038)	(1,291)
Other payables and accruals	(279)	(2,416)	(7,424)	(4,920)	(6,172)
Interest-bearing loans	(1,946)	(2,206)	(1,582)	(2,136)	(2,884)
Taxes payable	(321)	(204)	(43)	(123)	(83)
Total non-current liabilities		(6,494)	(9,034)	(6,411)	(4,329)
Interest-bearing loans		(6,101)	(7,803)	(5,299)	(3,458)
Long term bonds		0	(1,001)	(800)	(600)
Other long term liabilities		(394)	(230)	(312)	(271)
Total liabilities	(10,577)	(12,082)	(19,428)	(14,629)	(14,759)
Non-controlling interests	1,551	1,972	2,229	2,586	3,060
Equity of the firm	13,745	19,577	19,710	22,866	27,058
Total equity	15,297	21,549	21,939	25,451	30,118
BVPS (RMB)-IPO adjusted	8.45	6.02	6.06	7.03	8.32

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Profit before income tax	6,275	9,857	8,551	6,088	8,190
DD&A	602	979	1,712	1,443	1,716
Financial cost	172	286	430	358	394
Financial income	(26)	(38)	(35)	(37)	(36)
(Increase) decrease in inventories	(144)	(373)	130	(152)	(138)
Decrease in trade and bills receivables	102	(244)	(1,306)	464	(786)
Others	(620)	(1,661)	(1,301)	1,947	(2,615)
CF Operating	6,361	8,806	8,180	10,112	6,726
Capex	(3,524)	(4,097)	(4,700)	(6,158)	(6,786)
Others	(276)	(721)	(4,245)	(860)	(908)
CF Investing	(3,800)	(4,818)	(8,945)	(7,018)	(7,694)
Net debt financing	(1,181)	(2,342)	(653)	(73)	2,816
Dividend payout	(732)	(611)	(207)	(207)	(207)
Others	(212)	(1,433)	3,545	(4,000)	0
CF Financing	(2,125)	(4,386)	2,685	(4,280)	2,608
Net change in cash	436	(399)	1,920	(1,186)	1,640
Cash at the beginning*	3,270	4,829	4,431	6,351	5,165
Exchange difference	0	0	0	0	0
Cash at the end	3,707	4,431	6,350	5,165	6,805

Source(s): Company, ABCI Securities estimates

Financial ratios (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Profitability (%)					
Gross profit margin	56.70	44.69	35.24	30.00	33.00
EBT margin	45.30	36.51	27.07	20.76	24.75
Net Profit Margin	36.20	28.45	20.44	15.94	18.84
ROA	-	46.11	32.86	21.96	24.98
ROE	-	22.85	15.60	11.66	13.90
Cost ratio (%)					
Admin/Sales	10.79	8.55	8.71	9.70	8.71
Effective tax rate	15	17	16	16	16
Leverage					
Current Ratio	1.51	1.40	1.08	1.16	1.18
Quick Ratio	0.17	1.05	0.87	0.90	0.94
Cash Ratio	0.00	0.80	0.61	0.63	0.65
Total debt/total equity (%)	69.15	56.07	88.56	57.48	49.00
Total debt/total asset (%)	40.9	35.9	47.0	36.5	32.9
Net debt/total equity					
Working capital data and Ratios					
Inventory turnover	15.45	20.25	21.66	21.62	20.26
Receivables turnover	22.31	27.25	15.41	11.93	12.64
Payables turnover	6.69	18.43	19.28	17.35	19.16
Days' inventory on hand	23.62	18.03	16.85	16.88	18.02
Days' of sales outstanding	16.36	13.39	23.68	30.59	28.88
Days' payables	54.58	19.80	18.93	21.04	19.05
Cash conversion cycle	(14.60)	11.62	21.60	26.43	27.85

Source(s): Company, ABCI Securities estimates



November 13, 2013
Company Report
Rating: **SELL**
TP: HK\$ 5.82

H-Share price (HK\$) 7.46
Est. share price return (21.95%)
Est. dividend yield 6.13%
Est. total return (15.82%)

Previous Rating & TP SELL; HK\$ 4.16
Previous Report Date Aug 8, 2013

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

Key Data

52Wk H/L(HK\$)	14.48/5.13
Issued shares (mn)	4,918
H-Shares (mn)	1,958
A-Shares (mn)	2,960
Market cap	
H-shares (HK\$ mn)	14,610
A-Shares (HK\$ mn)	28,712
3-mth avg daily turnover (HK\$ mn)	219.0
Major shareholder(s) (%):	
Yankuang Group Company Limited	52.86

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Coal	96.12
Railway transportation service	0.84
Gross sales of electricity power	0.69
Gross sales of methanol	2.33
Gross sales of heat supply	0.02

Source(s): Company, ABCI Securities

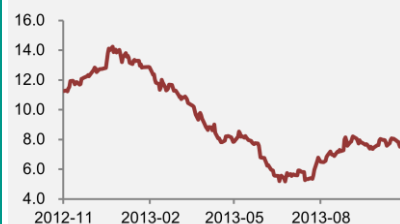
Share performance (%)

	Absolute	Relative*
1-mth	0.00	0.18
3-mth	13.89	7.51
6-mth	(9.25)	(2.32)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Yanzhou Coal (1171 HK)

High-cost and overvalued; maintain SELL

- In 3Q13, Yanzhou Coal has achieved a significant cost cut. Net profit was RMB 1,808mn, reflecting an EPS of RMB 0.37, compared to a loss of RMB 0.585 per share in 2Q13
- Rebound in International coal prices will help increase 4Q13 revenue. Accordingly, we revise up our FY 13E/14E EPS.
- However, the Group's unit cost is the highest among peers while room for further cost cut is limited
- The counter has rallied 34.2% since July, and we believe its current valuation at 8.33x FY14E P/E is demanding. Maintain SELL. TP revised up from HK\$4.16, to HK\$5.82 (6.5x FY14E P/E) to reflect the sales potential

Coal price rebound in peak season. Both the domestic and foreign coal spot markets started to warm up in 4Q13. Bohai-Rim spot prices reached RMB 545 on Nov 6 (up by RMB 14/ton, or +2.64% since Sep 25) and Australia BJ prices were up by US\$4.9/ton, or +6.24% since Sep 26). Yanzhou Coal raised prices of some clean coal products in 4Q13. The mild recovery in the spot market is positive to the Group's negotiation for the 2014 contract price with the IPPs. Nonetheless, we predict downstream demand to remain weak.

Cost cut has been substantial but unsustainable. The Group's recorded significant cost cut in 3Q13 and unit cost fell 19.53% YoY in 9M13 in its headquarters, 26.99% YoY in Shanxi Neng Hua branch, 13.97% YoY in Heze Neng Hua branch, and 14.66% YoY in Yancoal Australia. At the same time, its sales rose 12.09% YoY in 9M13. However, we notice that the Group has significantly enlarged the sales of imported coal and ~37% of it's the unit cost cut achieved in 9M13 came from reduced salary – an unsustainable measure in the long run.

2H13 sales to offset loss in 1H13. The Group swung back into profit (~RMB1,808mn) in 3Q13, offsetting some of its loss in 1H13 that reached RMB 2,878mn. We predict its sales in 4Q13E and FY14E will continue to grow on recovering demand. Thus, we revised up its FY13E/14E EPS from RMB 0.04/0.51 to RMB0.38/0.71).

Maintain SELL. The stock is trading at 8.33x FY14E P/E, higher than the average of its H-share peers at 7.65x. Considering its low ROE, persistently weak coal demand and unsustainable cost-cutting measures that may lead to rebound in costs later on, we believe the counter is overvalued. Maintain **SELL** with TP at HK\$ 5.82, reflecting 6.5x FY14E P/E.

Risk factors: 1) Further declines in coal prices; 2) Imbalance in supply and demand; 3) Business cycles of downstream industries; 4) Costs rebound due to unsustainable cost-cutting measures; 5) FY13E DPS maydrop.

Results and Valuation

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Revenue (RMB mn)	33,944	47,066	58,146	52,893	60,093
Chg (% YoY)	64.16	38.66	23.54	(9.03)	13.61
Net Profit (RMB mn)	9,281	8,928	6,219	1,877	3,469
Chg (% YoY)	125.42	(3.81)	(30.34)	(69.82)	84.83
EPS (RMB)	1.89	1.82	1.26	0.38	0.71
Chg (% YoY)	124.65	(3.81)	(30.34)	(69.82)	84.83
BVPS (RMB)	7.59	8.67	9.32	9.58	10.07
Chg (% YoY)	28.06	14.20	7.49	2.85	5.12
P/E (x)	--	-	5.01	15.39	8.33
P/B (x)	-	-	0.68	0.61	0.58
DPS(RMB)	0.59	0.57	0.36	0.12	0.22
Yield (%)	-	-	5.68	2.01	3.72
ROE (%)	27.92	22.33	14.06	4.04	7.18
ROA (%)	13.73	10.51	5.66	1.60	2.95

Source(s): Bloomberg, ABCI Securities estimates



Quarterly financial briefing (1Q12-3Q13) (under China's GAAP)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13
Total Operating Revenue(RMB mn)	14,396	14,813	12,903	17,562	10,771	15,417	15,267
Cost of Revenue, RMB mn	9,796	11,457	11,027	13,019	8,145	12,432	11,880
Total Operating Cost (RMB mn)	11,376	14,356	13,033	16,647	10,098	20,555	12,796
Operating Profit (RMB mn)	3,036	510	(167)	821	591	(5,332)	2,417
Total Profit (RMB mn)	3,051	1,905	(149)	754	598	(5,330)	2,504
Less: Income Tax (RMB mn)	843	(808)	(45)	(14)	177	(1,485)	622
Net Profit (RMB mn)	2,208	2,713	(105)	767	421	(3,845)	1,882
Net Profit Attributable to Parent Company Owner (RMB mn)	2,192	2,714	(80)	689	481	(2,878)	1,808
Diluted EPS(RMB)	0.446	0.552	(0.018)	0.142	0.098	(0.585)	0.368
Equity att. To the shareholders, RMB mn							
GPM	31.95%	22.66%	14.54%	25.87%	24.39%	19.36%	22.19%
Operating Margin	20.97%	3.09%	(1.01%)	5.21%	6.25%	(33.33%)	16.19%
Net profit margin	15.23%	18.32%	(0.62%)	3.92%	4.46%	(18.67%)	11.84%
Tax rate	28%	(42%)	30%	(2%)	30%	28%	25%

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2010A-2014E)

FY Ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Revenue	33,944	47,066	58,146	52,893	60,093
Coal	32,591	45,181	56,201	50,894	57,864
Railway transportation service income	513	477	464	586	585
Gross sales of electricity power	186	328	324	317	371
Gross sales of methanol	629	1,059	1,118	1,063	1,238
Gross sales of heat supply , RMB mn	25	20	40	33	35
Transportation costs of coal	(1,160)	(1,248)	(2,104)	(1,964)	(2,176)
Cost of sales and service provided	(16,801)	(25,725)	(41,962)	(39,168)	(43,387)
Cost of electricity power	(196)	(362)	(331)	(309)	(342)
Cost of methanol	(717)	(930)	(911)	(851)	(942)
Cost of heat supply	(12)	(14)	(25)	(23)	(26)
COGS	(18,887)	(28,280)	(45,333)	(42,314)	(46,873)
Gross profit	15,058	18,786	12,813	10,579	13,221
SG&A	(5,094)	(6,570)	(7,988)	(8,786)	(9,665)
Other income and gains	2,514	305	1,521	566	914
Pre-tax profit	12,477	12,521	6,346	2,358	4,470
Income tax	(3,171)	(3,545)	(124)	(472)	(983)
Net profit	9,306	8,976	6,222	1,886	3,487
Profit attributable to:					
Minority interests	25	48	3	9	17
Equity shareholders of the Company	9,281	8,928	6,219	1,877	3,469
EPS (Basic), RMB	1.89	1.82	1.26	0.38	0.71
DPS, RMB	0.59	0.57	0.36	0.12	0.22

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2010A-2014E)

As of Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Property, plant and equipment	19,875	31,274	39,503	36,662	34,036
Prepaid lease payments	728	713	696	712	707
Intangible assets	19,633	26,206	33,634	26,491	28,777
Other non-current assets	8,239	8,528	18,587	14,242	15,642
Total non-current assets	48,475	66,720	92,420	78,108	79,162
Bank balances and cash	6,771	8,145	12,717	15,706	24,065
Bills and accounts receivable	10,017	7,312	7,460	6,616	7,522
Inventories	1,646	1,391	1,566	1,527	1,736
Prepayments and other receivables	2,614	3,625	4,197	3,942	4,402
Other current assets	3,233	9,958	4,343	5,944	6,778
Current assets	24,281	30,431	30,282	33,735	44,503
Total assets	72,756	97,152	122,702	111,843	123,665
Bills and accounts payable	(1,554)	(2,241)	(6,812)	(6,107)	(6,979)
Other payables and accrued expenses	(3,821)	(7,345)	(9,014)	(8,218)	(9,258)
Borrowings-due within one year	(615)	(19,588)	(7,713)	(9,305)	(12,202)
Other short-term liabilities	(4,144)	(5,547)	(5,085)	(5,065)	(4,973)
Total current liabilities	(10,134)	(34,721)	(28,623)	(28,696)	(33,412)
Borrowings-due after one year	(22,401)	(14,869)	(33,284)	(24,077)	(28,680)
Deferred tax liability	(2,601)	(3,895)	(7,730)	(5,813)	(6,771)
Other Non-current liabilities	(182)	(340)	(3,975)	(2,769)	(1,730)
Total non-current liabilities	(25,184)	(19,105)	(44,988)	(32,658)	(37,181)
Total liabilities	(35,317)	(53,827)	(73,611)	(61,354)	(70,593)
Total equity	37,438	43,325	49,091	50,489	53,072
Non-controlling interests	107	691	3,265	3,358	3,530
Equity of the firm	37,332	42,634	45,826	47,131	49,542
BVPS, RMB	7.59	8.67	9.32	9.58	10.07

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Profit before income tax	12,477	12,521	6,346	2,358	4,470
Depreciation of property, plant and equipment	2,427	2,266	2,819	2,637	2,438
Interest expenses	603	839	1,449	1,594	1,721
Interest income	(187)	(358)	(722)	(722)	(722)
Decrease (increase) in inventories	(728)	403	(59)	39	(209)
Decrease (increase) in bills and accounts receivable	(5,286)	2,800	(93)	843	(906)
Other adj. items	(3,906)	(495)	(3,236)	(5,501)	(2,715)
CF Operating	5,400	17,977	6,504	1,247	4,077
Purchases of property, plant and equipment	(3,576)	(8,620)	(6,230)	(6,100)	(6,983)
Others	(2,308)	(16,991)	3,043	63	(572)
CF Investing	(5,884)	(25,611)	(3,187)	(6,037)	(7,555)
Proceeds from bank borrowings	1,111	16,712	12,282	13,310	16,545
Dividend paid	(1,230)	(2,902)	(2,803)	(1,771)	(582)
Cash flows from other financing	(1,242)	(4,369)	(8,333)	(3,684)	(3,993)
CF from/(used) in Financing activities	(1,361)	9,441	1,145	7,855	11,971
Net change in cash	(1,845)	1,807	4,461	3,065	8,492
Cash at the beginning	8,522	6,771	8,145	12,717	15,706
Exchange difference	94	(433)	111	(76)	(133)
Cash at the end	6,771	8,145	12,717	15,706	24,065

Source(s): Company, ABCI Securities estimates



Financial ratios (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Profitability ratio (%)					
Gross profit margin	44.36	39.91	22.04	20.00	22.00
EBT margin	36.76	26.60	10.91	4.46	7.44
Net profit margin	27.34	18.97	10.70	3.55	5.77
ROA	13.73	10.51	5.66	1.60	2.95
ROE	27.92	22.33	14.06	4.04	7.18
Cost ratio (%)					
Admin/Sales	15.01	13.96	13.74	16.61	16.08
Effective tax rate	25.41	28.32	1.95	20.00	22.00
Leverage (x)					
Current ratio	2.40	0.88	1.06	1.18	1.33
Quick ratio	2.23	0.84	1.00	1.12	1.28
Cash ratio	0.67	0.23	0.44	0.55	0.72
Total debt/total equity (%)	94.33	124.24	149.95	121.52	133.02
Total debt/total asset (%)	13.93	35.74	23.33	25.66	27.02
Working capital data and Ratios					
Inventory turnover	14.9	18.6	30.7	27.4	28.7
Receivables turnover	4.6	5.4	7.9	7.5	8.5
Payables turnover	13.4	14.8	10.1	6.5	7.2
Days' inventory on hand	24.5	19.6	11.9	13.3	12.7
Days' of sales outstanding	79.3	67.2	46.4	48.6	42.9
Days' payables	27.1	24.7	36.3	55.8	50.7
Cash conversion cycle	76.6	62.1	22.0	6.1	4.9

Source(s): Company, ABCI Securities estimates



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)

FY Ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Revenue	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)
Gross profit	14,478	18,813	17,303	13,916	15,243
Other income and gains	333	162	91	126	137
SG&A	(3,749)	(4,757)	(4,586)	(6,421)	(6,935)
Profit from operations	11,062	14,219	12,807	7,621	8,445
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)
Net profit	8,151	10,854	9,575	5,496	6,093
Profit attributable to:					
Minority interests	685	898	733	330	366
Equity shareholders of the Company	7,466	9,955	8,842	5,166	5,728
EPS (Basic), RMB	0.56	0.75	0.67	0.39	0.43
Dividend per share, RMB	0.16	0.22	0.21	0.11	0.12

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2010A-2014E)

As of Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
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
Total non-current assets	74,236	104,979	136,306	151,804	169,102
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
Current assets	48,700	57,173	49,381	45,280	47,517
Total assets	122,936	162,152	185,688	197,084	216,619
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)
Total current liabilities	(19,391)	(29,824)	(34,126)	(34,709)	(38,350)
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)
Total non-current liabilities	(17,207)	(35,454)	(50,141)	(56,633)	(67,733)
Total liabilities	(36,598)	(65,278)	(84,267)	(91,341)	(106,084)
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
Equity of the firm	74,049	82,525	86,726	90,423	94,521
Book value/share, RMB	5.58	6.22	6.54	6.82	7.13

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Profit before income tax	10,999	14,315	12,789	7,328	8,125
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
CF Operating	10,683	14,547	10,887	9,196	10,641
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)
CF Investing	1,466	(35,283)	(31,889)	(31,617)	(27,029)
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
CF from/(used) in Financing activities	(1,853)	18,593	13,311	16,201	16,676
Net change in cash	10,296	(2,142)	(7,691)	(6,220)	287
Cash at the beginning	12,628	23,057	20,907	13,223	6,995
Exchange difference	(2)	(7)	(7)	(7)	(7)
Cash at the end	22,922	20,908	13,210	6,995	7,276

Source(s): Company, ABCI Securities estimates

Financial Ratios (2010A-2014E)

FY Ended Dec 31	2010A	2011A	2012A	2013E	2014E
Profitability, %					
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
Cost ratio (%)					
Admin/Sales	5.33	5.23	5.25	7.15	7.05
Effective tax rate	26	24	25	25	25
Leverage					
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
Net debt/total equity	Net Cash	23.6	33.7	42.8	49.1
Working capital data and Ratios					
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

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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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