



# Company Report

## China Coal (1898 HK) – Hold China Coal & Consumable Fuels Industry May 15, 2013

**Rating: Hold**  
**TP: HK\$6.0**

### Key Data

H-Share price (HK\$)	5.79
Upside potential (%)	3.63
52Wk H/L(HK\$)	9.04/5.72
Issued shares (mn)	13,259
H Shares (mn)	4,107
A Shares (mn)	9,152
Market cap	
- H Shares (HK\$mn)	23,778
- A Shares (Rmb mn)	61,044
3-mth avg daily turnover (HK\$mn)	207
Major shareholder (%):	
China Coal Group Corp Ltd	57.54%

Source: Company, Bloomberg, ABCI Securities

### Revenue composition in FY12 (%)

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

Source: Company, ABCI Securities

### Share performance (%)

	Absolute	Relative*
1-mth performance	(8.10)	(13.77)
3-mth performance	(28.96)	(22.10)
6-mth performance	(21.76)	(29.93)

\*Relative to HSCEI Index

Source: Bloomberg, ABCI Securities

### 1 year price performance



Source: Bloomberg, ABCI Securities

### Analyst

**Report Date:** 15 May, 2013

Mark Chen

Previous report: 16 April, 2013

Tel: (852) 2147 8819

Email: markchen@abci.com.hk

### TP revised down in light of increasing unit cost

We are positive on China Coal's status as a large competitor in China, which will benefit from the industrial consolidation. But we are concerned about its bargaining power with IPPs and its surging costs. We revise down its FY13E EPS due to weak cost control. However, considering the recent stock price adjustment, we maintain our Hold rating on the stock and revise down the 12-month TP to HK\$6 (from HK\$7.5), implying 3.63% upside from the current price.

**A large player but weak bargain power.** Our channel check indicates that the group's long-term contract price was adjusted on a monthly basis if exceeding a hurdle rate of 2%, which is less efficient than China Shenhua's weekly adjustment, especially when the prices rebound. In addition, its long-term contract price dropped 3.67% YoY to Rmb446/t in 1Q13. Though we are positive on the growing potential of large coal producers in the industrial reshaping, we are concerned about the group's capacity to transform the edges into bargaining power.

**Downward revision of FY13E earnings estimates in light of increasing costs.** The unit cost of China Coal was 78% higher than that of China Shenhua. The group's 1Q13 unit cost rose by 2.6% to Rmb216.15/t from FY12's average level (Rmb210.68/t), indicating a less efficient cost control. In 1Q13, China Shenhua's unit cost was Rmb121.4/t, improved by 6.7% from FY12's average level (Rmb130.2/t).

**Maintain our Hold rating with reduced target price.** Considering the less efficient pricing frequency and increasing cost, we revise down the company's FY13E EPS from Rmb0.72 to Rmb 0.56. Accordingly, we revise down its target price to HK\$6.0, implying 3.63% upside from the current price. Our TP reflects FY13 forward PER of 8.5x.

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

### Performance and Valuation

FY ended Dec 31	2010A	2011A	2012E	2013E	2014E
Turnover (Rmb mn)	70,303	90,865	87,292	88,914	91,856
Chg (% yoy)	32.2	29.2	(3.9)	1.9	3.3
Net Income (Rmb mn)	7,466	9,955	8,842	7,378	7,466
Chg (% YoY)	0.8	33.3	(11.2)	(16.6)	1.2
EPS (Rmb)	0.56	0.75	0.667	0.556	0.563
Chg (% YoY)	0.0	34.1	(11.2)	(16.6)	1.2
BVPS (Rmb)	5.6	6.2	6.5	6.9	7.3
Chg (% yoy)	8.0	11.4	5.1	6.1	5.8
P/E (x)	-	-	6.9	8.2	8.1
P/B (x)	-	-	0.7	0.7	0.6
Dividend	0.16	0.22	0.21	0.16	0.16
Dividend yield (%)	-	-	4.6	3.5	3.5
ROAE (%)	10.5	12.7	10.4	8.3	7.9
ROAA (%)	6.4	7.0	5.1	3.8	3.6

Source: Company, Bloomberg, ABCI Securities estimates (assuming Rmb1.0=HK\$1.26)



**Consolidated income statements forecast**

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
<b>Revenue</b>	70,303	90,865	87,292	88,914	91,856
Coal	55,839	74,038	71,783	73,095	75,246
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)	(73,798)	(76,240)
<b>Gross profit</b>	<b>14,478</b>	<b>18,813</b>	<b>17,303</b>	<b>15,115</b>	<b>15,615</b>
Other income and gains	333	162	91	126	137
SG&A	(3,749)	(4,757)	(4,586)	(4,816)	(5,201)
<b>Profit from operations</b>	<b>11,062</b>	<b>14,219</b>	<b>12,807</b>	<b>10,426</b>	<b>10,551</b>
Other income/cost/and loss	(63)	97	(18)	39	40
Pre-tax profit	10,999	14,315	12,789	10,465	10,591
Profits tax	(2,848)	(3,462)	(3,214)	(2,616)	(2,648)
<b>Net profit</b>	<b>8,151</b>	<b>10,854</b>	<b>9,575</b>	<b>7,849</b>	<b>7,943</b>
Minority interests	685	898	733	471	477
<b>Equity shareholders of the Company</b>	<b>7,466</b>	<b>9,955</b>	<b>8,842</b>	<b>7,378</b>	<b>7,466</b>
<b>EPS (Basic), Rmb</b>	<b>0.56</b>	<b>0.75</b>	<b>0.67</b>	<b>0.56</b>	<b>0.56</b>
<b>Dividend per share, Rmb</b>	<b>0.16</b>	<b>0.22</b>	<b>0.21</b>	<b>0.16</b>	<b>0.16</b>

Source: Company data, ABCI Securities estimates

**Balance sheet forecast**

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
Property, plant and equipment	46,418	60,823	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	6,820	7,020
Accounts and bills receivable	7,006	8,014	11,394	11,602	11,943
Prepaid expenses and other current assets	5,439	6,468	6,367	6,483	6,674
Cash and cash equivalents	22,922	20,907	13,223	8,738	9,499
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>46,727</b>	<b>47,529</b>
<b>Total assets</b>	<b>122,936</b>	<b>162,152</b>	<b>185,688</b>	<b>198,532</b>	<b>216,632</b>
Trade and notes payables	(9,254)	(11,003)	(16,102)	(16,396)	(16,878)
Accruals, advance and other payables	(6,997)	(12,053)	(9,262)	(9,431)	(9,708)
Short-term borrowings	(396)	(2,255)	(5,130)	(5,130)	(5,130)
Other short-term liabilities	(2,743)	(4,514)	(3,633)	(3,347)	(3,469)
<b>Total current liabilities</b>	<b>(19,391)</b>	<b>(29,824)</b>	<b>(34,126)</b>	<b>(34,304)</b>	<b>(35,186)</b>
Long-term borrowings	(10,716)	(11,456)	(20,171)	(20,813)	(25,492)
Long-term bonds	-	(14,955)	(19,906)	(25,892)	(32,072)
Other Non-current liabilities	(6,491)	(9,043)	(10,064)	(9,928)	(10,041)
<b>Total non-current liabilities</b>	<b>(17,207)</b>	<b>(35,454)</b>	<b>(50,141)</b>	<b>(56,634)</b>	<b>(67,605)</b>
<b>Total liabilities</b>	<b>(36,598)</b>	<b>(65,278)</b>	<b>(84,267)</b>	<b>(90,938)</b>	<b>(102,791)</b>
Total equity	86,339	96,874	101,420	107,593	113,840
Non-controlling interests	12,290	14,349	14,694	15,588	16,493
<b>Equity of the firm</b>	<b>74,049</b>	<b>82,525</b>	<b>86,726</b>	<b>92,005</b>	<b>97,347</b>
<b>Book value/share, Rmb</b>	<b>5.58</b>	<b>6.22</b>	<b>6.54</b>	<b>6.94</b>	<b>7.34</b>

Source: Company data, ABCI Securities estimates



**Consolidated cash flow statements forecast**

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
<b>Profit before income tax</b>	<b>10,999</b>	<b>14,315</b>	<b>12,789</b>	<b>10,465</b>	<b>10,591</b>
DD&A	3,752	4,854	4,944	4,897	4,880
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	(122)	(201)
Decrease in trade and bills receivables	(2,123)	(1,851)	(3,383)	(208)	(341)
Other adj. items	(816)	(1,235)	(2,683)	(2,663)	(1,814)
<b>CF Operating</b>	<b>10,683</b>	<b>14,547</b>	<b>10,887</b>	<b>11,538</b>	<b>12,050</b>
Purchases of property, plant and equipment	(12,060)	(19,156)	(24,934)	(22,045)	(19,840)
Others	13,525	(16,127)	(6,955)	(10,172)	(7,489)
<b>CF Investing</b>	<b>1,466</b>	<b>(35,283)</b>	<b>(31,889)</b>	<b>(32,217)</b>	<b>(27,329)</b>
Cash flows from short-term borrowing activities	9,215	1,779	2,876	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	5,475
<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>16,047</b>
<b>Net change in cash</b>	<b>10,296</b>	<b>(2,142)</b>	<b>(7,691)</b>	<b>(4,478)</b>	<b>768</b>
Cash at the beginning	12,628	23,057	20,907	13,223	8,738
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>8,738</b>	<b>9,499</b>

Source: Company data, ABCI Securities estimates



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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

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

**Tel** : (852) 2868 2183