

Key Data

Share price (HK\$)	7.07
52Wk H/L(HK\$)	10.78/ 6.08
Issued shares (mn)	13,259
- H Shares (mn)	4,107
- A Shares (mn)	9,152
Market cap	
- H Shares (HK\$m)	29,036
- A Shares (Rmbmn)	67,907
30-day avg vol (HK\$m)	201
Major shareholder (%):	
China Coal Group Corp Ltd	57.52

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

Coal	81.73
Coking operation	6.01
Coal mining equipment	8.06
Others	4.20

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	7.8	1.3
3-mth	(0.8)	(8.4)
6-mth	(30.0)	(24.2)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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

Interim results review

China Coal (1898 HK) unveiled its revenue edged up 5.4%YoY, but EBITDA and net profit was down 6.9%YoY and 8.2%YoY for 1HFY12 respectively. Half-year EPS was down 7.14%YoY to Rmb0.39. NBV inched up to Rmb6.32/share as of Jun 30. Half-year ROAE was 6.19%. The H-share is at 8% discount to its latest NBV.

In line with our expectation, the long-term coal sales contract has provided buffer for large coal producers such as China Coal. The spot price of China Coal's self-produced commercial coal reduced by 9.7%, its LT contract price improved by 13.8% in 1H12. The overall ASP improved by 2.9%, a relatively good sign in the weak coal market.

According to the management, contract prices for some products have exceeded the spot prices recently. However, they predict that the spot price would stabilize in 3Q and rise slightly in 4Q. Recent selling price for some products have advanced by 5% from July's bottom, and the orders from S&M IPPs have improved recently.

As for the potential merge of the dual price systems, the management welcome the merge of the dual prices, and believe that it will benefit the coal producers, as from long-run and for most of the time, the long term contract price is lower than the spot price.

We expect that the coal demand of 2H12 would be better than 1H12. In 1H12, the group's overall gross profit margin was 20.9% (23.4% 1H11), and 30.7% (35.7% 1H11) for the coal sector. The gross profit margin is expected to edge up when coal prices to recover in 4Q.

We believe the declining trend of its ROAE is the cause of its lower PER and PB rating. (Pls refer to charts in next page.)

Risk factors: 1) Coal price risk; 2) Imbalance of supply and demand; 3) Business cycles of downstream industries.

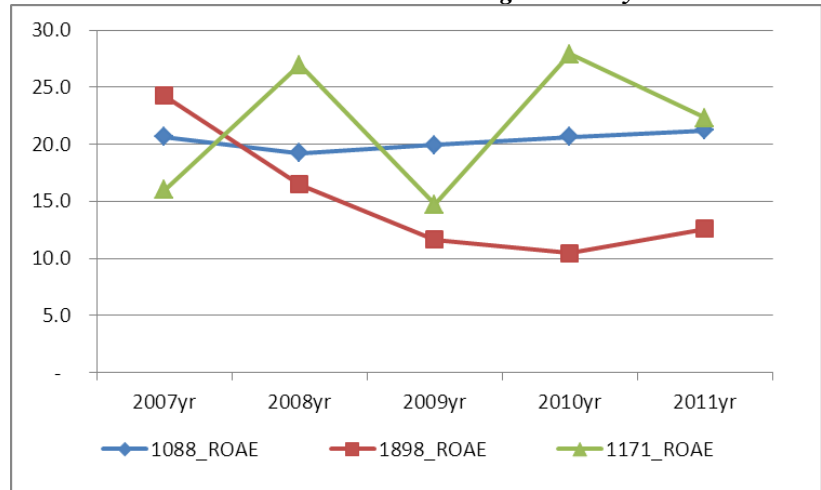
Performance and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Turnover (Rmb mn)	35,641	51,753	53,187	70,303	87,773
Net Income (Rmb mn)	6,020	7,131	7,409	7,466	9,802
Chg (% YoY)	89.8	18.5	3.9	0.8	31.3
EPS (Rmb)	0.51	0.54	0.56	0.56	0.74
Chg (% YoY)	30.8	5.9	3.7	—	32.1
P/E (x)	—	—	—	—	7.8
P/B (x)	—	—	—	—	0.9
Dividend yield (%)	—	—	—	—	3.4
ROAE (%)	24.3	16.5	11.7	10.5	12.6
Net debt/total equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Bloomberg, ABCI Securities estimates

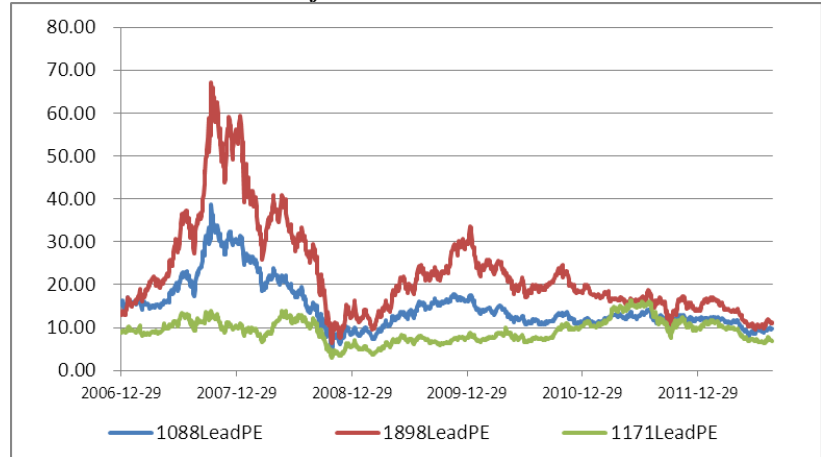


Exhibition 1: China Coal's ROAE is reducing in recent years



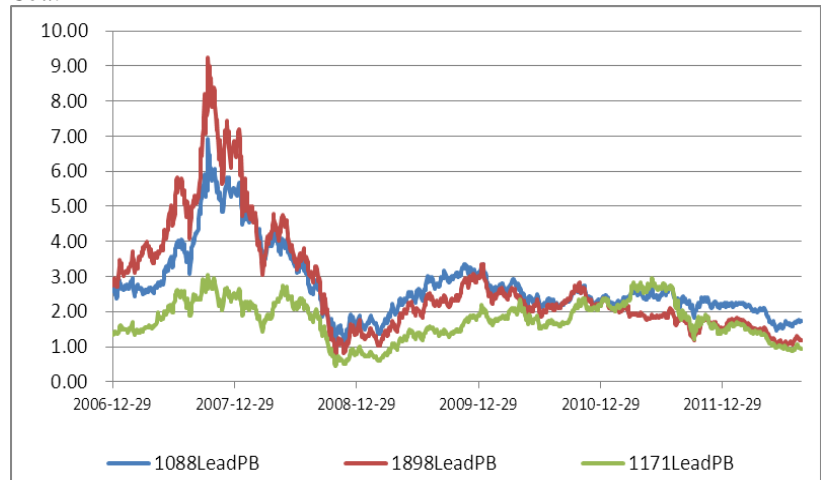
Source: Bloomberg, ABCI

Exhibition 2: China Coal's forward PE with Shenhua and Yanzhou Coal



Source: Bloomberg, ABCI

Exhibition3: China Coal's forward PB trend with Shenhua and Yanzhou Coal



Source: Bloomberg, ABCI



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