



Company Rating:

**Hold**

Target Price: \$7.50

## China Coal (1898 HK)

China Coal & Consumable Fuels Industry

### More catalysts needed to validate an upgrade

China Coal's operating data showed a rapid recovery in March 2013, with its domestic sales of self-produced coal surging 20.3% mom to 10.38mnt. Besides, recent price adjustment made the stock's valuation attractive. However, given the weak spot coal prices and slower-than-expected 1Q13 GDP growth, we believe that more positive catalysts are needed to validate a rating upgrade. We maintain our Hold rating on the stock with TP unchanged.

#### Key Data

H-Share price (HK\$)	6.30
Upside potential (%)	19.31
52Wk H/L(HK\$)	9.14/6.08
Issued shares (mn)	13,259
H Shares (mn)	4,107
A Shares (mn)	9,152
Market cap	
- H Shares (HK\$mn)	25,872
- A Shares (Rmb mn)	62,051
3-mth avg daily turnover (HK\$mn)	193
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

#### Share performance (%)

	Absolute	Relative*
1-mth performance	(11.76)	(6.50)
3-mth performance	(26.40)	(14.45)
6-mth performance	(16.67)	(16.18)

\*Relative to HSCEI Index

Source: Bloomberg

#### 1 year price performance



Source: Bloomberg

#### Analyst

Report Date: 16 April, 2013

Mark Chen

Previous report: 19 March, 2013

Tel: (852) 2147 8819

Email: markchen@abci.com.hk

**Sales volume jumped in March.** China Coal's commercial coal production volume edged up 3.0% yoy (16.3% mom). The data seems promising, with which 1Q13 coal sales volume of self-produced coal met 24.5% of our 2013E prediction. Possible reasons are: 1) IPPs finished contract negotiations with China Coal and began to implement the contract normally; 2) IPPs enlarge coal inventory in light of maintenance period for Daqin Line in April; 3) downstream demand resumed after the lunar New Year. Coal inventory at QHD has dropped to 7.03mnt, down 15% from March's peak at 8.31mnt, reflecting strong sales volume in March.

However, the Bohai-Rim steam coal price index was still weak, reaching its record low of Rmb626/t on Apr. 10. Besides, China's slower-than-expected 1Q213 GDP growth indicates that more positive catalysts are needed to verify a solid recovery of the thermal coal demand.

**Maintain Hold rating with TP at \$7.50.** The stock's valuation seems attractive for short-term speculation after recent price rally. However, in view of its low double-digit ROAE for FY12 & FY13, the stock should trade at small premium of its NBV. We maintain Hold rating on the stock.

**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	2011A	2012E	2013E	2014E
Turnover (Rmb mn)	90,865	87,292	93,070	100,538
Chg (% yoy)	29.2	(3.9)	6.6	8.0
Net Income (Rmb mn)	9,955	8,842	9,496	10,269
Chg (% YoY)	33.3	(11.2)	7.4	8.1
EPS (Rmb)	0.75	0.67	0.72	0.77
Chg (% YoY)	34.1	(11.2)	7.4	8.1
BVPS (Rmb)	6.2	6.5	7.1	7.6
Chg (% yoy)	11.4	5.1	7.8	7.9
P/E (x)		7.5	7.0	6.5
P/B (x)		0.8	0.7	0.7
Dividend	0.22	0.21	0.20	0.22
Dividend yield (%)	4.3	4.2	4.1	4.4
ROAE (%)	12.7	10.4	10.5	10.6
ROAA (%)	7.0	5.1	5.0	5.1

Source: Company, Bloomberg, ABCI Securities estimates (assuming Rmb1.0=HK\$1.25)

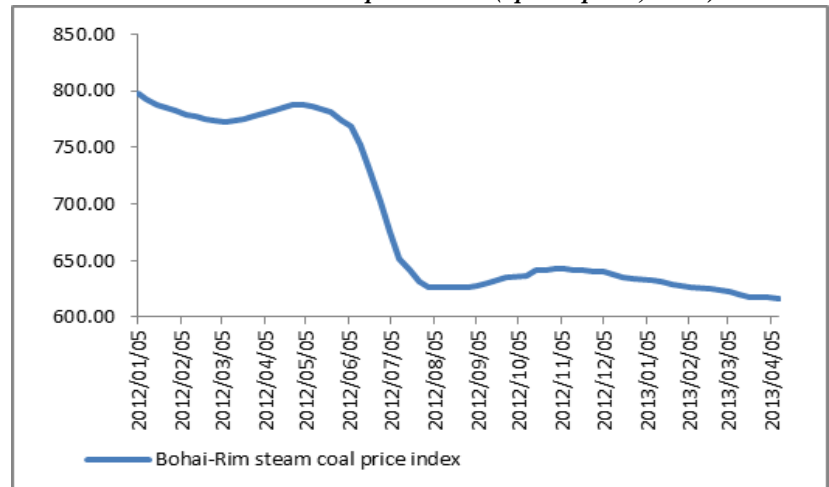


**Exhibit : China Coal's major productive and operation data of March,2013**

	2013 Mar.	2013 YTM Total	2012 (RS) Mar.	2012 (RS) YTM Total	Chg (% YoY) Mar.	Chg (% YoY) YTM Total
1.Commercial coal production volume (10k tonnes)	1,051	2,966	1,020	2,948	3.0	0.6
2.Coke production volume (10k tonnes)	16	46	13	43	23.1	7.0
3.Output value of coal mining Equipment production (10k Rmb)	52,596	148,209	83,262	219,158	(36.8)	(32.4)
4.Coal sales volume (10k tonnes)	1,463	3,678	1,287	3,536	13.7	4.0
(1) Domestic sales of self-produced coal (10k tonnes)	1,038	2,773	979	2,858	6.0	(3.0)
(2) Export sales of self-produced coal (10k tonnes)	4	12	1	24	300.0	(50.0)
(3) Domestic coal trading (10k tonnes)	368	756	253	518	45.5	45.9
(4) Export agency sales and proprietary export sales (10k tonnes)	28	54	26	71	7.7	(23.9)
(5) Import agency sales and proprietary import sales (10k tonnes)	25	83	28	65	(10.7)	27.7

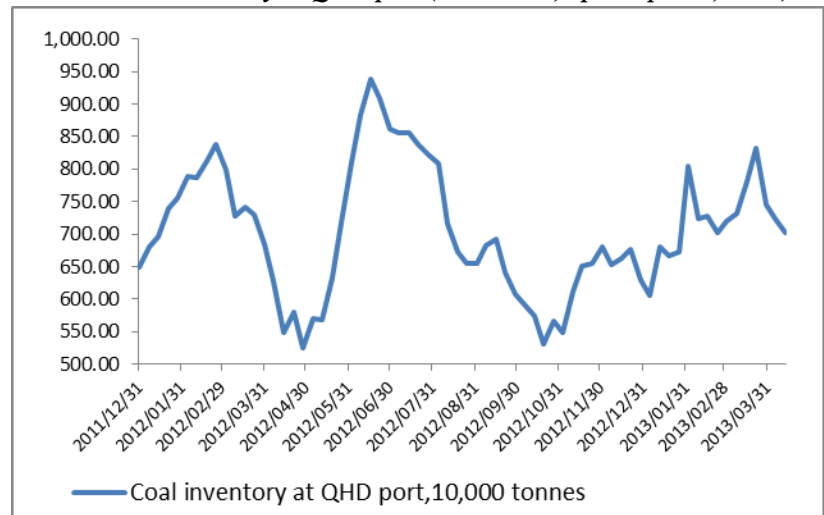
Source: Company

**Exhibit : Bohai-Rim steam coal price index (up to Apr.10, 2013)**



Source: Wind, ABCI Securities

**Exhibit : Coal inventory at QHD port (10k tonnes, up to Apr. 10, 2013)**



Source: Wind, ABCI Securities

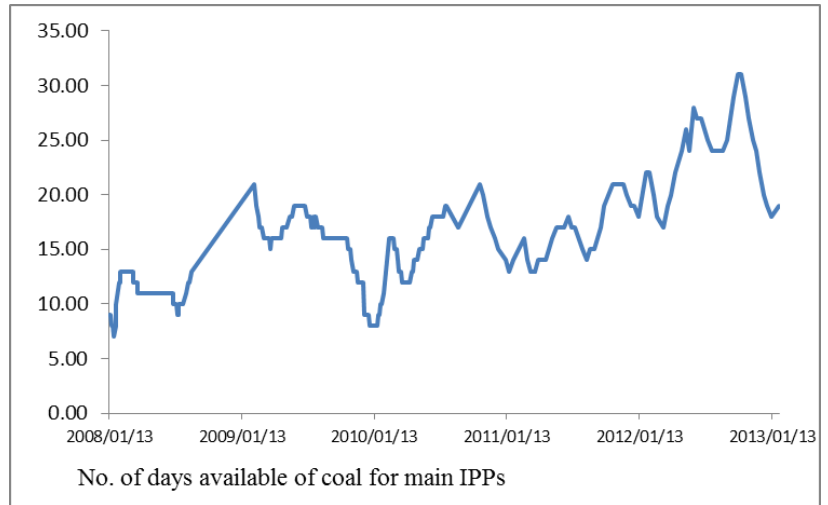


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**Exhibit : No. of days available of coal for China's Main IPPs (up to Apr.10, 2013)**



Source: Wind, ABCI Securities



## Disclosures

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.  
Tel: (852) 2868 2183**