

10 August 2012

Equity Focus

Key Data

Share price (HK\$)	7.71
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)	31,665
- A Shares (Rmbmn)	71,203
30-day avg vol (HK\$m)	203.55
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	19.9	15.4
3-mth	(5.3)	(6.8)
6-mth	(25.7)	(22.2)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Rating - Unrated

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

Don't be too bearish in coal sector

China's CPI and PPI both dropped in July, reflecting weak economy situation. We expect government to launch various fiscal and monetary stimulus policies to bolster the economy. Domestic coal prices are stabilizing, signaling economy is soft landing in Q3. Systematic risk of coal stock will reduce. China Coal H-share is trading at attractive P/B of 1.03x.

China's macro economy still weak, as we see July CPI and PPI scores 1.8%/ -2.9% yoy, 30/33 months low. As expected, coal prices have stabilized in early August, but we still need to concern the macro situation in 2H12.

In addition, CPI increased 0.1% mom in July, indicating potential risk of the return of inflation, which might make central bank more vulnerable to loosen the monetary policy.

FAI shows good signs. We see that FAI has stabilized in July in terms of overall investment and the 2nd industry investment. Especially, FAI from central government began to increase. We predict that due to the lagged effect, government investment should show their effect in 4Q. However, the coal demand would be supported in this procedure, as well as the coal price.

2H12 Outlook. A strong recovery of coal prices is not expected, but decline in domestic and international coal prices are both stabilizing. Thus, product price risk of China Coal Energy should reduce. Its H-share is trading at slightly above its NBV of Rmb 6.158/share (or HK\$7.51).

Risk factors: 1) Coal price risk; 2) the influx of foreign coal cap the rebound momentum of domestic coal prices; 3) change of coal export quota.

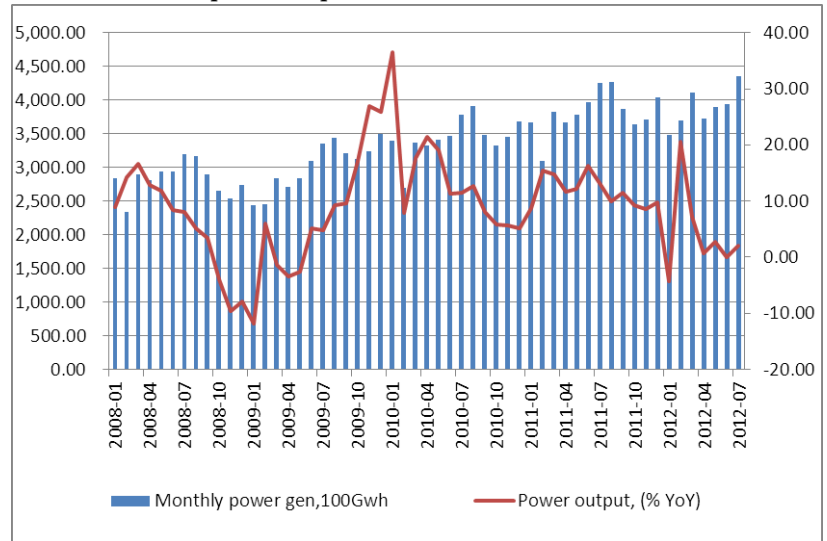
Performance and Valuation

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)	—	—	—	—	8.5
P/B (x)	—	—	—	—	1.0
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

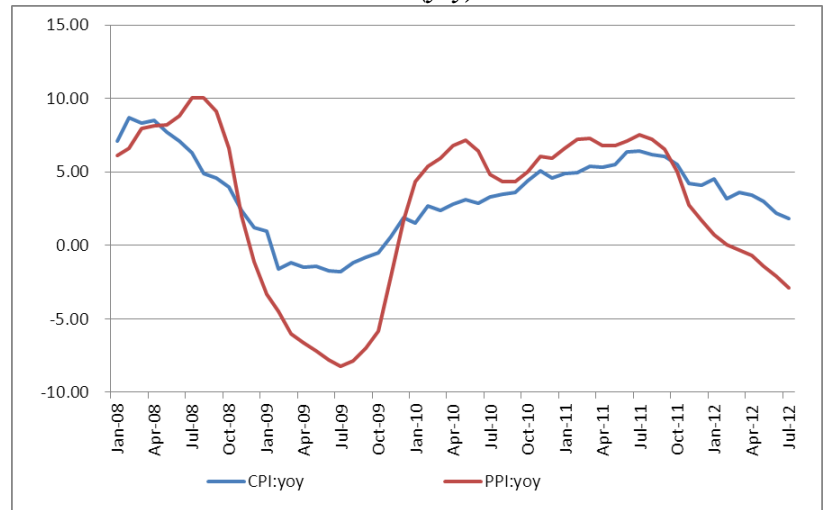


Exhibit 1: China's power output



Source: WIND, ABCI Securities

Exhibit 2: China CPI and PPI index (yoy)



Source: WIND, ABCI Securities



Exhibit 3: China CPI and PPI index (mom)

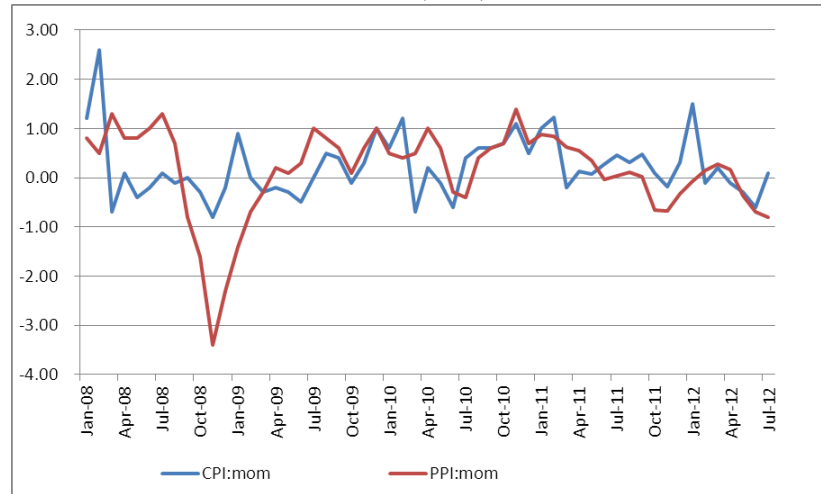
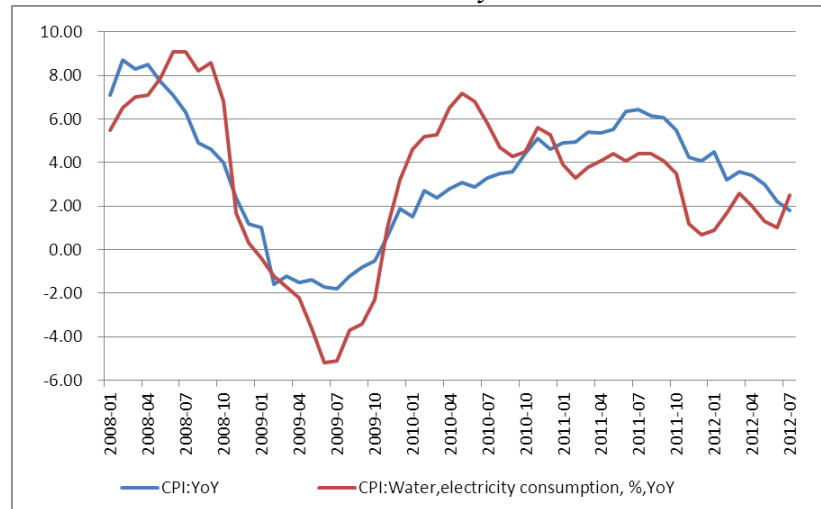


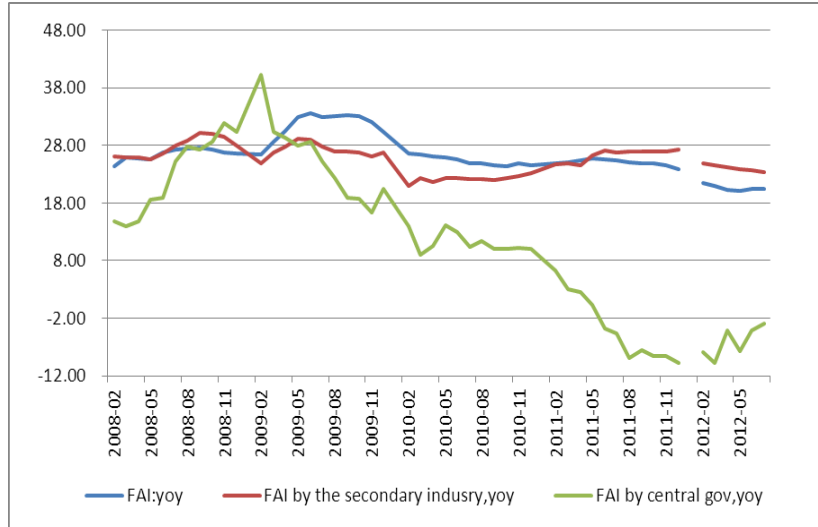
Exhibit 4: China CPI and Water-Electricity sub-CPI index



Source: WIND, ABC Securities

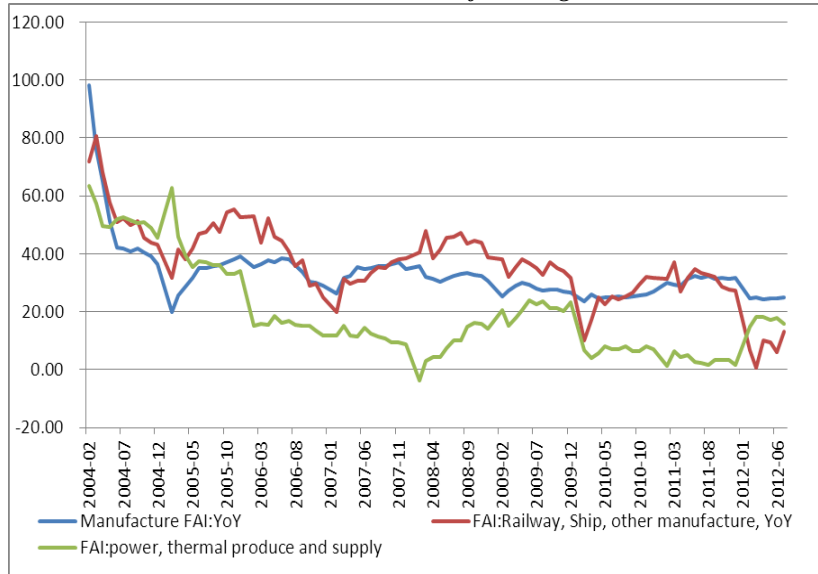


Exhibit 5: China FAI and government investment



Source: WIND, ABCISecurities

Exhibit 6: Fixed asset investment in manufacturing sector trend



Source: WIND, ABCISecurities



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