



Company Report

China Coal (1898 HK) China Coal & Consumable Fuels Industry Mar 19, 2013

Rating: Hold
TP: HK\$7.5

Key Data

H-Share price (HK\$)	6.97
Upside potential (%)	7.60
52Wk H/L(HK\$)	9.59/6.08
Issued shares (mn)	13,259
- H Shares (mn)	4,107
- A Shares (mn)	9,152
Market cap	
- H Shares (HK\$mn)	28,623
- A Shares (Rmb mn)	67,450
3-mth avg daily turnover (HK\$mn)	211
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

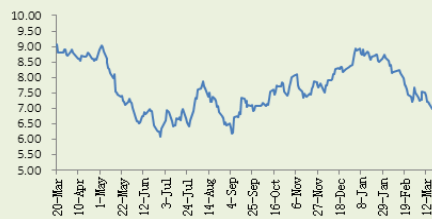
Share performance (%)

	Absolute	Relative*
1-mth performance	(10.41)	(4.07)
3-mth performance	(16.53)	(11.31)
6-mth performance	(3.73)	(13.33)

*Relative to HSCEI Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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Key takeaways from analyst meeting

China Coal (1898 HK) unveiled its FY12 revenue down 3.9%YoY. Both net profit and EPS decreased 11.2%YoY while BVPS increased 5.1%YoY to Rmb6.5/share. FY12 ROAE worsened to 10.4% (FY11:12.7). The management favors a 5% growth of raw coal production in FY13 and will step up efforts to control the unit cost growth from surging beyond 5%. The management's expectation is line with our FY13 expectation and we maintain our Hold rating on the stock.

Weak FY12 results due to spot coal price slump. China Coal's revenue and net profit dropped 3.9%YoY and 11.2%YoY to Rmb87,292 and Rmb8,842mn respectively. The plunge of the net profit was mainly due to the weak spot coal price in 2H12 with which China Coal's average spot selling price dropped 15.1% (FY12:Rmb474/t vs FY11: Rmb558/t). The management does not expect strong rebound of spot coal price in FY13 but expect the Chinese government to urge the IPPs to import more high-quality coals which would probably reduce imports of low-quality thermal coals.

Efficient cost control alleviates impact of the spot price slump. The company achieved 2.9%YoY cost improvement in FY12, with the unit cost of self-produced coal reducing from Rmb342.81/t to Rmb332.82/t. The company expects that the unit cost growth will be controlled within 5% in FY13, while the whole coal sales will grow at least 5%. Considering the efficient cost control and a mild growth expectation, we expect the revenue and net profit of China Coal to be slightly better (6.6%YoY and 7.4YoY, respectively) in FY13 than those in FY12.

Maintain Hold rating with TP at \$7.5. Our target price has been adjusted recently to reflect the weak annual results. However, the pessimistic thermal coal market sentiment remains intact and more catalysts are needed to trigger a sector outperformance. We continue to maintain our Hold rating with TP at \$7.5.

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	2010A	2011A	2012E	2013E	2014E
Turnover (Rmb mn)	70,303	90,865	87,292	93,070	100,538
Chg (%.yoy)	32.2	29.2	(3.9)	6.6	8.0
Net Income (Rmb mn)	7,466	9,955	8,842	9,496	10,269
Chg (%.YoY)	0.8	33.3	(11.2)	7.4	8.1
EPS (Rmb)	0.56	0.75	0.67	0.72	0.77
Chg (%.YoY)	0.0	34.1	(11.2)	7.4	8.1
BVPS (Rmb)	5.6	6.2	6.5	7.1	7.6
Chg (%.yoy)	8.0	11.4	5.1	7.8	7.9
P/E (x)	—	—	8.4	7.8	7.2
P/B (x)	—	—	0.85	0.79	0.7
Dividend yield (%)	—	—	3.8	3.7	4.0
ROAE (%)	10.5	12.7	10.4	10.5	10.6
ROAA (%)	6.4	7.0	5.1	5.0	5.1

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



Consolidated income statements forecast

As of Dec 31 (Rmb mn)	2010A	2011R	2012A	2013E	2014E
Revenue	70,303	90,865	87,292	93,070	100,538
Coal	55,839	74,038	71,783	78,107	84,826
Coke and coal-chemical product, Rmb mn	4,888	5,301	4,185	4,351	4,568
Machinery, Rmb mn	6,095	7,733	7,885	8,541	8,968
Others, Rmb mn	3,480	3,793	3,439	2,072	2,175
Cost of sales	(55,825)	(72,052)	(69,989)	(74,556)	(80,520)
Gross profit	14,478	18,813	17,303	18,515	20,018
Other income and gains	333	162	91	211	227
SG&A	(3,749)	(4,757)	(4,586)	(5,043)	(5,447)
Profit from operations	11,062	14,219	12,807	13,682	14,798
Other income/cost/and loss	(63)	97	(18)	(212)	(232)
Pre-tax profit	10,999	14,315	12,789	13,470	14,566
Profits tax	(2,848)	(3,462)	(3,214)	(3,367)	(3,641)
Net profit	8,151	10,854	9,575	10,102	10,924
Minority interests	685	898	733	606	655
Equity shareholders of the Company	7,466	9,955	8,842	9,496	10,269
EPS (Basic), Rmb	0.56	0.75	0.67	0.72	0.77
Dividend per share, Rmb	0.16	0.22	0.21	0.20	0.22

Source: Company data, ABCI Securities estimates

Balance sheet forecast

As of Dec 31 (Rmb mn)	2010A	2011R	2012A	2013E	2014E
Property, plant and equipment	46,418	60,823	85,510	80,941	89,739
Mining and exploration rights	18,611	28,973	32,479	33,421	35,092
Land use rights	2,564	2,819	3,529	2,942	2,942
Other non-current assets	6,643	12,364	14,789	16,692	17,468
Total non-current assets	74,236	104,979	136,306	133,996	145,242
Inventories	6,215	7,315	6,697	7,035	6,008
Accounts and bills receivable	7,006	8,014	11,394	10,534	9,479
Prepaid expenses and other current assets	5,439	6,468	6,367	7,505	6,755
Cash and cash equivalents	22,922	20,907	13,223	20,090	24,956
Other current assets	7,118	14,468	11,701	18,809	18,809
Current assets	48,700	57,173	49,381	63,973	66,007
Total assets	122,936	162,152	185,688	197,969	211,249
Trade and notes payables	(9,254)	(11,003)	(16,102)	(14,902)	(15,647)
Accruals, advance and other payables	(6,997)	(12,053)	(9,262)	(15,325)	(16,092)
Short-term borrowings	(396)	(2,255)	(5,130)	(2,491)	(2,615)
Other short-term liabilities	(2,743)	(4,514)	(3,633)	(4,487)	(4,815)
Total current liabilities	(19,391)	(29,824)	(34,126)	(37,204)	(39,169)
Long-term borrowings	(10,716)	(11,456)	(20,171)	(19,865)	(20,262)
Long-term bonds	-	(14,955)	(19,906)	(20,414)	(22,455)
Other Non-current liabilities	(6,491)	(9,043)	(10,064)	(8,714)	(8,965)
Total non-current liabilities	(17,207)	(35,454)	(50,141)	(48,992)	(51,682)
Total liabilities	(36,598)	(65,278)	(84,267)	(86,196)	(90,851)
Total equity	86,339	96,874	101,420	111,773	120,398
Non-controlling interests	12,290	14,349	14,694	16,562	17,840
Equity of the firm	74,049	82,525	86,726	95,211	102,558
Book value/share, Rmb	5.58	6.22	6.54	7.18	7.74

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

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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