

17 August 2012

## Equity Focus

### Key Data

Share price (HK\$)	7.20
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)	29570
- A Shares (Rmbmn)	68640
30-day avg vol (HK\$m)	203.08
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	7.3	15.4
3-mth	(3.2)	(8.6)
6-mth	(29.7)	(23.5)

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

#### Weak business performance in Jul

**We disappoint on the July sales of China Coal. Its total sales vol. of coal plunged 24.4% yoy. Domestic sales of self-produced coal down 15.2% yoy, indicating weak domestic demand in the first month of 3Q. However, its coal imports surged 138% yoy. Large amount of import coal is one of dragging factors to domestic coal prices. Weak business performance and low double digits ROAE justify the stock to trade at low P/B of 0.9.**

**Poor sales in Jul.** Domestic sales of self-produced coal in Jul was down 15.2% yoy, accounting for 80% of total sales vol of coal in Jul. Weak domestic sales will adversely affect the financial performance of the group for 3Q. Trading sales of coal were also down 45% yoy in Jul. We are disappointed on the operating performance of China Coal.

**Import coal surged.** Despite weak domestic demand, its coal imports surged 138% yoy, indicating that total unit cost of import coal (including coal price, logistic costs and taxes) is competitive vs domestic coal prices. Import coal is one of dragging factors to domestic coal prices in 3Q.

**Supply chain implications:** Its coke output volume was down 30% yoy in Jul, suggesting weak demand from downstream steel industry. Meanwhile, coal mining equipment output value gained 14% yoy, suggesting coal miners increasing their capex. This is also positive news to other coal mining equip producers such as Sany (631).

**Short-term outlook:** Although int'l and domestic coal prices have stabilized in Aug, the recovery signal of the coal industry has yet to appear. Upstream coal miners are aggressively expanding capex. Weak domestic demand and increase in over-supply risk add further business risk of the group for the rest of this year. The stock is justified to trade at low P/B.

**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)	—	—	—	—	7.9
P/B (x)	—	—	—	—	0.9
Dividend yield (%)	—	—	—	—	3.7
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

**CCE: major productive and operation data of July**

Benchmark item	Unit	2012		2011		Percentage change (%)	
		July	Total	July	Total	July	Total
1. Commercial coal production volume	10,000 tonnes	905	6,427	859	6,050	5.4	6.2
2. Coke production volume	10,000 tonnes	14	106	20	123	-30.0	-13.8
3. Output value of coal mining Equipment production	RMB 10,000	69,543	534,171	61,198	499,197	13.6	7.0
4. Coal sales volume	10,000 tonnes	925	8,168	1,223	7,730	-24.4	5.7
(1) Domestic sales of self-produced coal	10,000 tonnes	744	6,070	877	5,856	-15.2	3.7
(2) Export sales of self-produced coal	10,000 tonnes	0	39	10	44	-100.0	-11.4
(3) Domestic coal trading	10,000 tonnes	131	1,616	301	1,489	-56.5	8.5
(4) Export agency sales and proprietary export sales	10,000 tonnes	12	143	19	191	-36.8	-25.1
(5) Import	10,000 tonnes	38	300	16	150	137.5	100.0

Source: company data



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