

## Company Rating:

# Hold

## Target Price: \$8.8

### Key Data

H-Share price (HK\$)	7.79
Upside potential (%)	13.1
52Wk H/L(HK\$)	10.48/6.08
Issued shares (mn)	13,259
H Shares (mn)	4,107
A Shares (mn)	9,152
Market cap	
- H Shares (HK\$m)	31,950
- A Shares (Rmb mn)	72,758
3-mth avg daily turnover (HK\$m)	199
Major shareholder (%):	
China Coal Group Corp Ltd	57.54%

Source: Company, Bloomberg, ABCI Securities

### Revenue composition in 1H12 (%)

Coal, %	82.2
Coke and coal-chemical product, %	5.2
Machinery, %	8.8
Others, %	3.9

Source: Company

### Share performance (%)

	Absolute	Relative*
1-mth performance	(10.16)	(5.37)
3-mth performance	5.28	(7.25)
6-mth performance	5.28	(11.96)

\*Relative to HSCEI Index

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

### Analyst

Report Date: 20 Feb., 2013

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## China Coal (1898 HK)

### China Coal & Consumable Fuels Industry

#### A weak start of 2013- Alert

China Coal's January operating data indicated a weak start of 2013, with its domestic sales of self-produced coal dropping 5.4%yoy (or 29.2%mom) to 8.72mnt. We expect its sales will not deteriorate further as the demand for power rebounds after the Chinese New Year (CNY) holidays. From short-term perspective, recent H-share price adjustment provides a speculative bet for the stock. From long-term perspective, the fundamental factors remain intact and we maintain our 12-month Hold rating on the stock.

**Sales volume slumped in January.** China Coal's commercial coal production volume edged up 2.0%yoy but dropped 21.2%mom and its coal sales volume of self-produced coal retreated 5.4%yoy (or 29.2%mom) in January 2013, a significant drop after two consecutive months' rebounding in November and December 2012. This was partly because IPPs reduced their coal demand from domestic producers in an attempt to gain bargaining power in recent long-term contract price negotiation. According to General Administration of Customs of PRC, China imported 30.55mnt coals in January, up 56.3%yoy.

**We predict that domestic sales volume will stabilize.** The thermal coal inventory days for main IPPs have been significantly reduced to 19 days in January, almost the lowest level in the last 12 months. We expect the demand for power will regain momentum after the CNY holidays which will boost sales volume of coal.

**Trading at FY13 P/B of 0.87x.** After the recent price rally, the stock's valuation became attractive for short-term speculation. However, in view of its low double digits ROAE for FY12 & FY13, the stock might be justified to trade at small premium of its NBV. We maintain Hold rating on the stock.

**Risk factors:** 1) the influx of foreign coal capping the rebound momentum of domestic coal prices; 2) Weak power consumption growth on slow economic growth; 3) Possible change of resources tax system.

### Performance and Valuation

FY ended Dec 31	2009A	2010A	2011A	2012E	2013E
Turnover (Rmb mn)	53,187	70,303	87,773	89,068	93,464
Chg (%.yoy)	2.8	32.2	24.8	1.5	4.9
Net Income (Rmb mn)	7,409	7,466	9,802	9,325	9,773
Chg (%.YoY)	3.9	0.8	31.3	(4.9)	4.8
EPS (Rmb)	0.56	0.56	0.74	0.70	0.74
Chg (%.YoY)	4.1	0.0	32.1	(5.0)	4.8
BVPS (Rmb)	5.2	5.6	6.2	6.7	7.2
Chg (%.yoy)	17.1	8.0	10.4	8.2	7.9
P/E (x)	—	—	8.5	8.9	8.5
P/B (x)	—	—	1.02	0.94	0.87
ROAE (%)	11.7	10.5	12.6	11.0	10.6
ROAA (%)	7.4	6.4	6.9	5.4	5.1
Net debt/total equity (%)	Net Cash	Net Cash	11.0	7.8	5.2

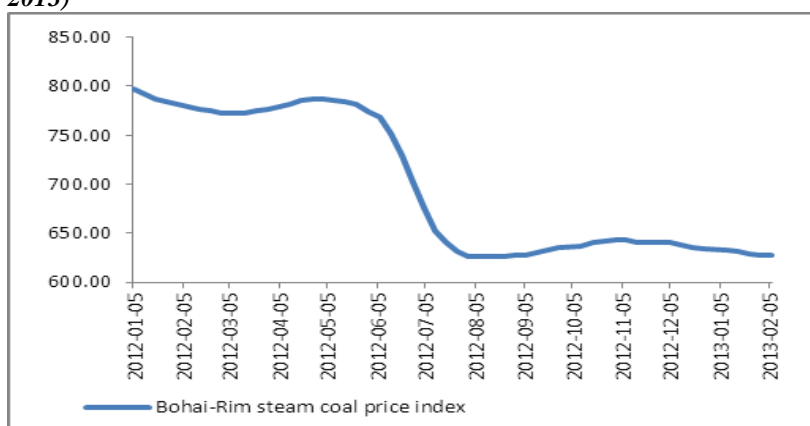
Source: Company, Bloomberg, ABCI Securities estimates (assuming Rmb1.0=HK\$1.25)

**Exhibit : China Coal's major productive and operation data of Dec.,2012**

	2013	2012	2013	2012	Chg	Chg
	Jan.	RS YTM Total	Jan.	RS YTM Total	(% YoY) Jan.	(% YoY) YTM Total
1.Commercial coal production volume (10k tonnes)	1,011	1,011	991	991	2.0	2.0
2.Coke production volume (10k tonnes)	16	16	17	17	-5.9	-5.9
3.Output value of coal mining Equipment production (10k Rmb)	55,105	55,105	60,044	60,044	-8.2	-8.2
4.Coal sales volume (10k tonnes)	1,084	1,084	1,061	1,061	2.2	2.2
(1) Domestic sales of self-produced coal (10k tonnes)	872	872	922	922	-5.4	-5.4
(2) Export sales of self-produced coal (10k tonnes)	4	4	4	4	-	-
(3) Domestic coal trading (10k tonnes)	143	143	118	118	21.2	21.2
(4) Export agency sales and proprietary export sales (10k tonnes)	16	16	11	11	45.5	45.5
(5) Import agency sales and proprietary import sales (10k tonnes)	49	49	6	6	716.7	716.7

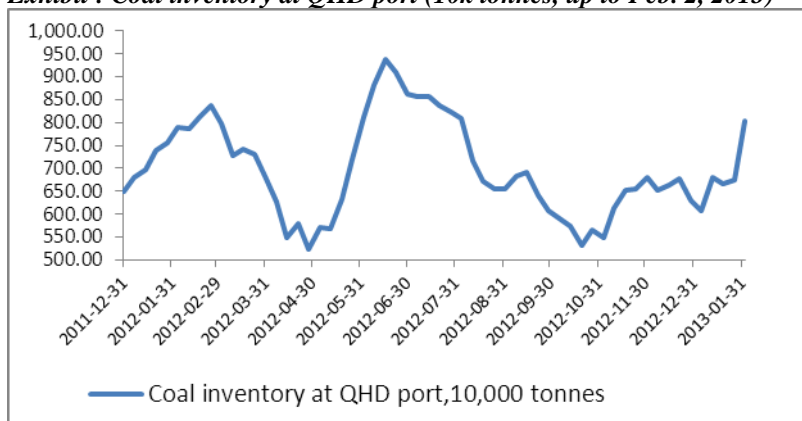
Source: Company

**Exhibit : Bohai-Rim steam coal price index (5500 kcal/kg, up to Feb. 6, 2013)**



Source: Wind, ABCI Securities

**Exhibit : Coal inventory at QHD port (10k tonnes, up to Feb. 2, 2013)**



Source: Wind, ABCI Securities

**Exhibit : Stock price and index performance**

Name	Code	Price (HK\$)	1-mon chg (%)	3-mon chg (%)	6-mon chg (%)
China Shenhua	1088	29.75	(8.88)	(3.25)	(1.65)
China Coal	1898	7.78	(10.16)	5.28	5.28
Yanzhou Coal	1171	12.36	(8.58)	9.77	0.32
HSCEI	HSCEI	11525.7	(4.79)	12.53	17.24

Source: Wind, ABCI Securities estimates

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## 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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