Company Report

China Coal (1898 HK) – HOLD

China Coal & Consumable Fuels Industry

12-month target price: HK$8.3

Key Data

Target Price (HK$)	8.3
H-Share price (HK$)	7.9
Upside potential (%)	5.1
52Wk H/L(HK$)	10.48/6.08
Issued shares (mn)	13,259
H Shares (mn)	4,107
A Shares (mn)	9,152
Market cap	
- H Shares (HK$mn)	32,443
- A Shares (Rmb mn)	65,162
3-mth avg daily turnover (HK$mn)	236
Major shareholder (%):	
China Coal Group Corp Ltd	57.54%

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

Coal, %	82%
Coke and coal-chemical product, %	6%
Machinery, %	8%
Others, %	4%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth performance	1.80	(1.92)
3-mth performance	17.56	1.74
6-mth performance	20.43	3.68

**Relative to HSCEI Index*
Source: Bloomberg

1 year price performance

Source: Bloomberg

Analyst

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Promising coal giant but fairly valued

We initiate coverage on China Coal (1898 HK) with a Hold rating and a 12-month TP of HK$8.3, implying 5.1% upside from the current price. We are optimistic about the earnings prospects of China Coal in view of strong client network in China, robust growth generated by price liberalization and cost reduction. Yet these growth drivers have been largely priced-in. The group is tackling its disadvantages in cost structure and transportation, but it takes time to factor into the bottom line.

Improving business prospects. Amid slower-than-expected economic growth, China Coal's coal sales slumped 16%YoY for the first 9 months in 2012. We predict its earnings to drop 10.6%YoY in 2012. However, with more coal projects to be initiated in the coming years, improving spot sales exposure and a robust outlook from industry consolidation, we expect its earning momentum will recover in 2013 and deliver 8% earnings CAGR over the next three years (2013-2015).

Improving cost control. Its average unit production cost was down 5.4%YoY to Rmb217.64/tonne for the first 9 months of FY12. Its decline rate was the highest among H-share coal mining peers.

Bottleneck in railway transportation capacity to ease. Its competitive edge will be sharpened by jointly establishing Mengxi-Huazhong Railway (MHR), a major north-to-south coal-line in China.

Our concern: China Coal consistently has the lowest ROAE among H-share peers. Low ROAE ratio does not justify the counter to trade at huge premium to its NBV.

Valuation: We initiate our coverage for China Coal with a Hold rating, with a 12 month TP of HK$8.3. Our TP is based on 1.2x/12.4x 2013E PB/PE ratio, with 5.1% upside potential from the current price. Present price has largely factored in the positives.

Risk factors: 1) coal price risk; 2) demand risk due to slowdown of economic growth; 3) regulatory and policy risk; 4) change of tax regimes.

Performance and Valuation

FY ended Dec 31	2010A	2011A	2012E	2013E	2014E
Turnover (Rmb mn)	70,303	87,773	85,373	89,642	96,813
Chg (%,yoy)	32.2	24.8	(2.7)	5.0	8.0
Net Income (Rmb mn)	7,466	9,802	8,767	9,205	9,941
Chg (%,YoY)	0.8	31.3	(10.6)	5.0	8.0
EPS (Rmb)	0.56	0.74	0.66	0.69	0.75
Chg (%,YoY)	0.0	32.1	(10.6)	5.0	8.0
BVPS (Rmb)	5.6	6.2	6.6	7.1	7.7
Chg (%,yoy)	8.0	10.4	7.7	7.5	7.5
P/E (x)	-	8.6	9.6	9.1	8.5
P/B (x)	-	1.0	1.0	0.9	0.8
Dividend yield (%)	-	3.0	3.1	3.4	3.6
ROAE (%)	10.5	12.6	10.3	10.1	10.1
ROAA (%)	6.4	6.9	5.1	4.8	4.9
Net debt/total equity (%)	Net Cash	11.7	8.9	6.7	7.9

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

Contents

Thermal coal sector overview

Our analysis of the thermal coal industry in China has the following implications.

- **Thermal coal is the most important energy source in China in the long run**
- **Thermal coal demand in domestic market is recovering with improving macro-economy of China**
- **Domestic thermal coal prices are stabilizing after sharp correction in Jul-Aug, 2012**

Thermal power still most important in China

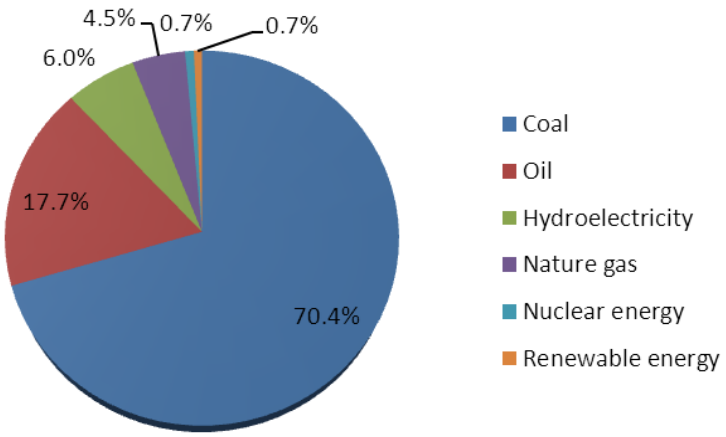
Coal is the major fossil fuel of China, accounting for 70.4% of the country's energy consumption in 2011.According to the BP Statistical Review of World Energy June 2012 (BP Review 2012), total output and consumption of coal in China accounted for 49.5% and 49.4% of global production and consumption in 2011 respectively. Hence, domestic and international coal prices are sensitive to the change of domestic supply and consumption of coal.

Exhibit: China's 2012 forecast main energy consumption (mn tonnes of oil equivalent)

Energy Type	Consumption (2012 forecast) (mn tonnes of oil equivalent)
Coal	1,839.4
Oil	461.8
Hydropower	157.0
Natural gas	117.6
Nuclear energy	19.5
Renewable energy	17.7
Total	2613.0

Source: BP Review 2012, ABCI Securities

Exhibit: China's 2012 forecast energy consumption distribution (mn tonnes of oil equivalent)



Source: BP Review 2012, ABCI Securities

Thermal coal prices slumped in May and June. Market has concerned on the future development of the thermal coal sector. The Chinese government reiterates thermal power is the largest energy source in the national twelfth five-year plan (i.e. period: 2011-2015) although the government encourages to diversify the energy sources. As thermal power remains the major energy source of the country, we believe demand for thermal power is sustainable.

Government encourages residents in rural area to migrate to urban area and work there. The increasing urbanization rate will help to boost consumption as well as industrial output, becoming a major driving force of the continued economic growth in coming years.

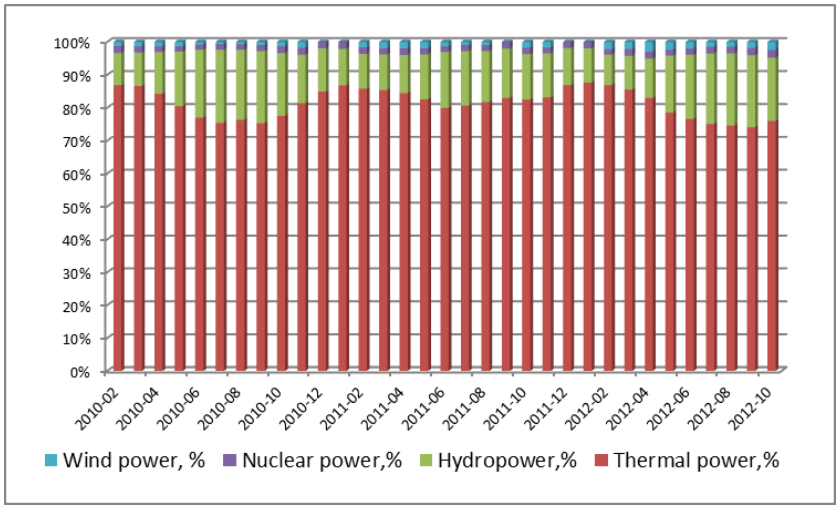
We believe that: 1) the composition of electricity generation will not change dramatically in the near future; 2) thermal power remains the main source of electricity generation in China and its demand will remain stable (as shown in the following exhibit) in the near future as long as China needs to secure large volume of power supply to sustain the industrialization and urbanization.

NBSC (National Bureau of Statistics of China) reports that the thermal power industry generated a total of 2,982.8bn Kwh in 2009 and 3,825.3bn Kwh in 2011, achieving a CAGR of 13.2%. According to the U.S. Energy Information Administration, China's power industry is the 2nd largest (in terms of coal sale) in the world after that of the U.S. CEC (China Electricity Council) also states that 72.5% of China's total installed capacity of power plants (1,055.8 GW at the end of 2011) was thermal power.

According to the predication of CNCA (China National Coal Association), that coal is unlikely to change its importance in energy resources by the end of 2050. The association anticipates China will heavily rely on thermal coal although the government keens to diversify energy resources and find new renewable energy.

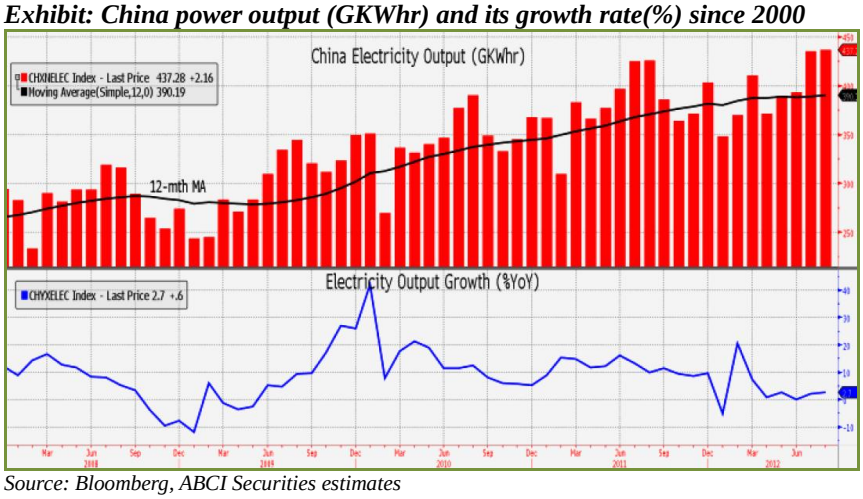
In our view, the proportion of thermal coal as total energy resources in the future will be sensitive to the installed capacity growth rate of thermal coal power (a major source of consumption of thermal coal) and non-coal power (such as gas power, hydropower, nuclear power, wind power, solar power, land heat power, etc.). If the installed capacity of non-coal power grows faster than thermal coal power, proportion of thermal coal as total energy resources will inevitably reduce. Moreover, the government encourages implementing the reduction of energy consumption/GDP in coming years. The implement of this goal will reduce elasticity ratio of power consumption and economic output. The relative growth rate of power consumption against economic output is expected to reduce.

Exhibit: China power output composition (%, Since Feb. 2010)



Source: Bloomberg, ABCI Securities estimates

Exhibit: China power output (GKWhr) and its growth rate(%) since 2000



Source: Bloomberg, ABCI Securities estimates

Downstream demand of thermal coal is recovering

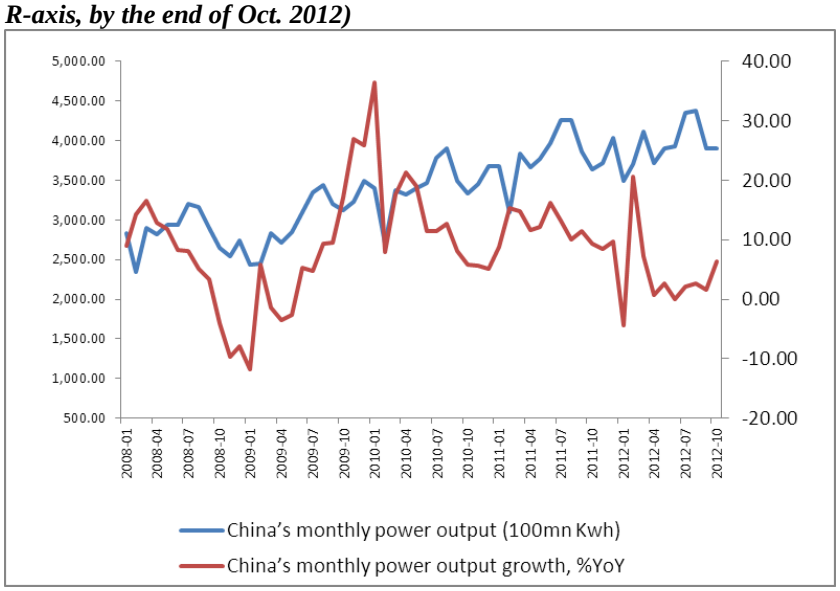
In 2H12, we have observed some positive signs of downstream demand:

1) the absolute output of electricity and thermal power are at historically high level and spot prices of thermal coal showed signs of recovering;

2) the thermal coal inventories in major coal ports have reduced significantly from June's peak and remains at historical low level;

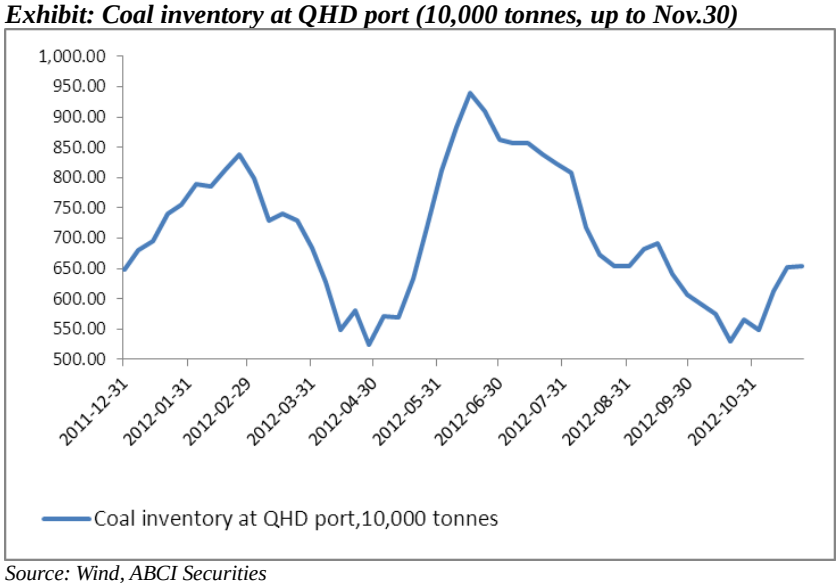
3) China's manufacturing PMI rebounded, and rose to the highest level in seven months as new orders and export demand climbed, indicating that the manufacturing industry is recovering.

Exhibit: China's electricity output (100mn Kwh, L-axis) & growth (%, R-axis, by the end of Oct. 2012)



Source: WIND, ABCI Securities estimates

Exhibit: Coal inventory at QHD port (10,000 tonnes, up to Nov.30)

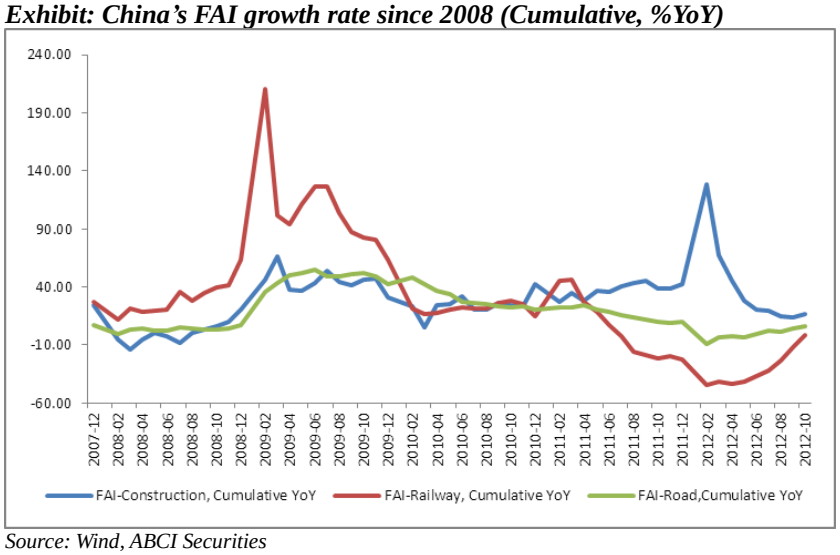


Source: Wind, ABCI Securities

Coal inventory reduced significantly in 3Q. The inventory at Qinhuangdao Port slumped to 5.31 mn tonnes on Oct. 20, reaching its 6-month-low since April 28, down 43% from June's peak.

The reducing inventory indicates that the downstream demand is recovering.

Exhibit: China's FAI growth rate since 2008 (Cumulative, %YoY)



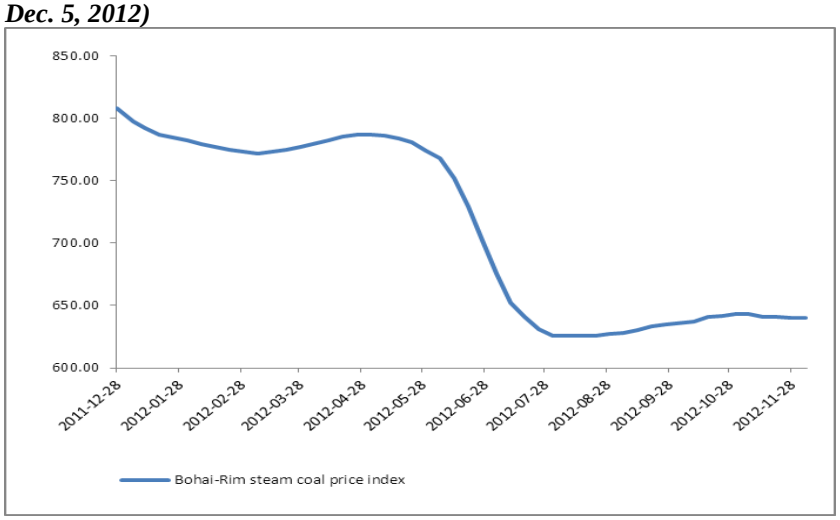
Source: Wind, ABCI Securities

Thermal coal prices stabilizing

Both domestic and int'l thermal coal prices are stabilizing in Nov. after sharp correction in Jul-Aug. The fiscal stimulus measures launched by NDRC since 3Q in highways, intercity railway systems, ports, airports construction and large thermal power plants has been factored into underlying economy in 4Q and will continue to fuel the economy in 1Q2013. Demand for energy resources will be boosted subsequently.

Bohai-Rim steam coal price (5500 kcal/kg) has increased from Rmb626/ton on Aug 22 to Rmb640/tonne on Nov 30. Price pressure from imported coal is also alleviated. Per our channel check, the price gap between international coal and domestic coal has been narrowed in 4Q12. We predict that the quantitative easing programs unveiled by EU, US and Japan in late 3Q will lend support to global energy prices when those programs are run in full swing in coming several months.

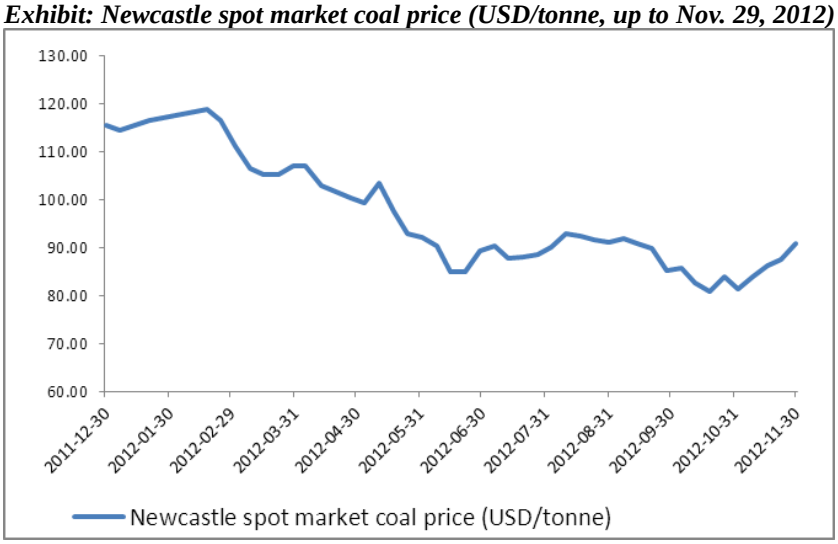
Exhibit: Bohai-Rim steam coal price index (5500 kcal/kg, Rmb/tonne, up to Dec. 5, 2012)



Source: Wind, ABCI Securities

Int'l spot thermal coal price slumped in May-Jun; while China's coal import surged during this period. Int'l spot coal price stabilized in 3Q and is increasing in 4Q.

Exhibit: Newcastle spot market coal price (USD/tonne, up to Nov. 29, 2012)

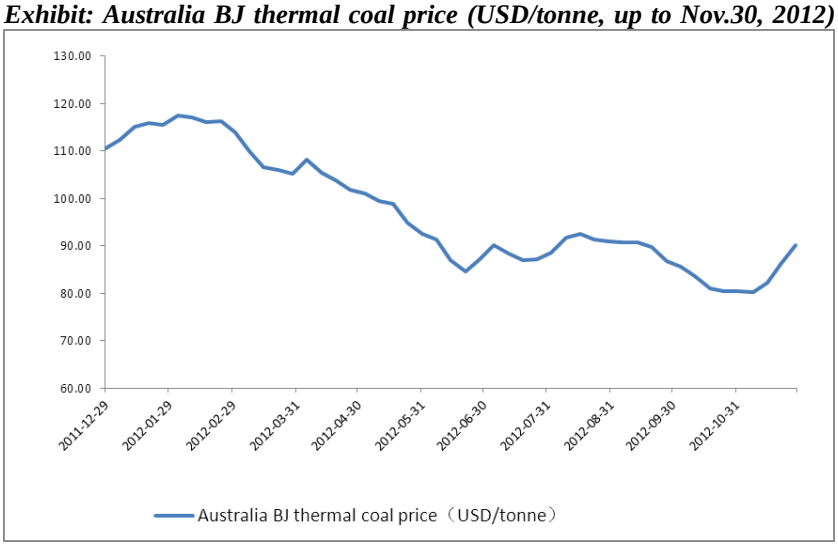


Source: Wind, ABCI Securities

The influx of foreign coal caps the rebound momentum of domestic coal prices.

However, in 4Q12the foreign coal prices rebounded and narrowed the spread with domestic prices.

Exhibit: Australia BJ thermal coal price (USD/tonne, up to Nov.30, 2012)



Source: Wind, ABCI Securities

Short-term triggers for the coal price

i) Early winter supports the spot coal price. Heavy snow and rain hit northern China in early November, causing chaos in transportation and local governments were taking effort to provide sufficient energy and fuels. Beijing initiated heat supply on 2 Nov, 12 days earlier than previous year. As per our channel chat, the demand for thermal coal in some northern provinces has been picked up earlier than previous years and it is highly possible that the peak season would last longer than expected.

ii) After the thermal coal price slump in May and June, domestic thermal coal has become attractive to domestic users. According to our channel check, IPPs will not consider to use import coal if the price gap between domestic coal and import coal continues to narrow.

The overseas coal prices with similar quality rebounded recently. The price gap between domestic coal and import coal is narrowing. Price competitiveness of import coal is reducing. Besides, IPPs need to fulfil the

contract with their domestic thermal coal producers so as to maintain the long-term relationship. In addition, the next year contract prices and transportation quota between IPPs and domestic coal suppliers will be based on contract's fulfilment ratio in this year.

Besides, IPPs and cement producers prefer to domestic coal more since they believe that domestic coal quality is better and are more convenient to arrange the transportation.

iii) Most of China's economic stimulus will take into effect in 4Q, which will trigger the downstream demand for coal from both thermal power, manufacting and construction materials industries. In early September, NDRC had accelerated approvals of various infrastructure construction projects with total amount of over Rmb1.0trillion. Most of the projects are - highways, intercity railway systems, ports and airports construction. We expect that the projects will trigger significant demand for thermal coal in cement and steel industries, as thermal coal is also widely used in these industries.

iv) More S&M coal mines squeezed out of the market. Price slump in 2Q caused many small & medium-sized coal miners to cease or reduce production, esp. in Inner Mongolia and Shaanxi. The output restriction regulated by NDRC since July, 2012 further reduces the market shares of the S&M coal miners. We anticipate their market shares will be displaced by large miners such as China Coal. As supply growth is constrained, downside risk of coal prices will be limited.

Business analysis

Improving business prospects

Revenue composition in FY11 (%)

Product	Contribution to revenue (%)
Coal	82
Coke & coal-chemical	6
Machinery	8
Others	4
Total	100

Source: Company, ABCI Securities

China Coal is the 2nd largest coal producer. Its parent China Coal Group also owns the largest coal trading company in China. Most of the coal mining business of China Coal Group has been injected to China Coal, and we expect that the coal trading business will be injected by the parent into China Coal in the near future. From 2006 to 2011, sales volume of its self-produced coal grew at CAGR of 11.87% from 57.15mnt to 100.15mnt.

China Coal is also one of the largest coal machinery producers in China, with fast-growing track record. From 2006 to 2011, its sales of coal production machinery grew by CAGR of 24.7% from Rmb2,346mn to Rmb7,074mn.

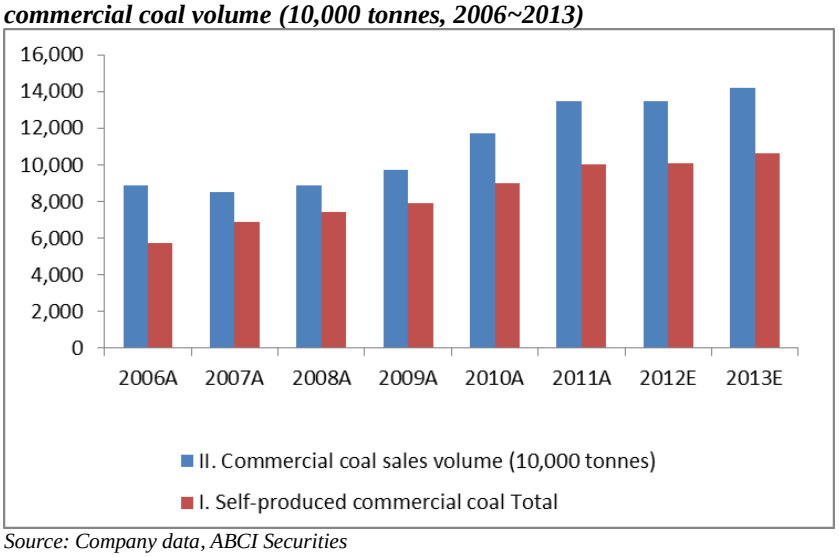
It maintains good relationship with its clients but it also successfully diversifies its client base. In FY11, its sales from top five clients accounted for 18% of its total sales, against Yanzhou Coal (19% of FY11) and Yitai Coal (26% of FY11) and are much lower than China Shenhua (22% of FY11).

Investment market takes pessimistic view on local thermal coal sector in 2012 due to the slowdown of global and local economic growth, the transformation of local economic growth structure from investment-driven growth to consumption-driven growth, and the ceiling of coal price set by the NDRC.

After factoring the above negative factors, we forecast China Coal's earnings will drop 10.6% in 2012. However, with more coal projects to be initiated in the coming years, improving spot sales exposure and a robust outlook from industry consolidation, we expect its earnings momentum will recover in 2013 and deliver 8% earnings CAGR over the next three years (2013-2015).

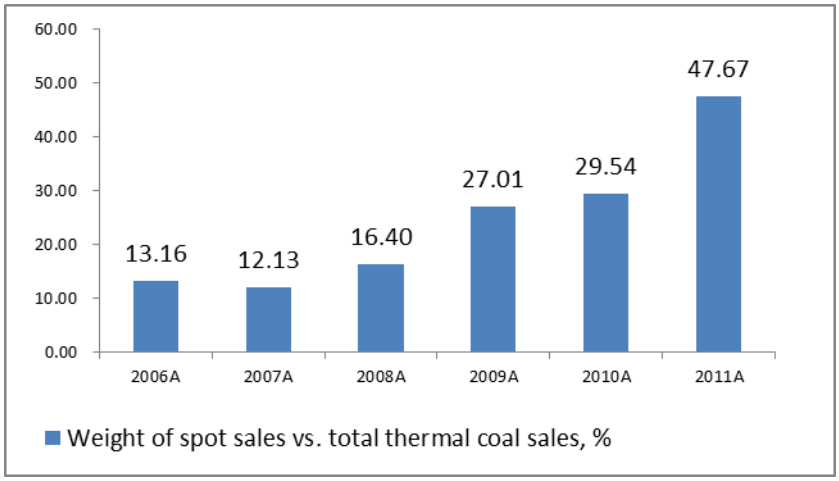
In a longer term, we expect that the new mines (Nalin River No.2 and developed Ordos coal field (with total production capacity of 25mn tonnes)) will contribute to its coal business after 2015E.

Exhibit: China Coal's total coal sales volume and self-produced commercial coal volume (10,000 tonnes, 2006~2013)



Source: Company data, ABCI Securities

Exhibit: Increasing proportion of coal sales at spot prices to total thermal coal sales



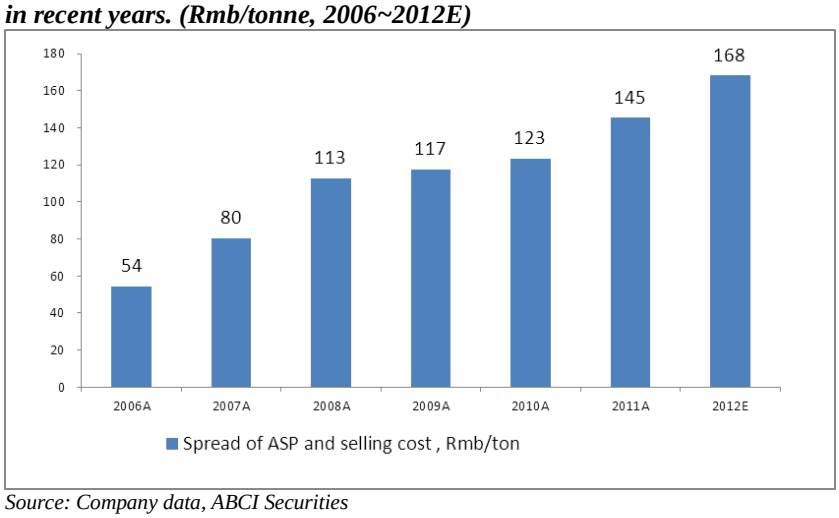
Source: Company data, ABCI Securities

Improving cost control efficiency

The spread of China Coal's thermal coal ASP and the selling cost is enlarging in the period of 2006-2012E. In addition, the average production cost of China Coal was Rmb217.64/tonne for the first 9 months of FY12, dropped 5.4%YoY. This implies that the counter is improving cost control efficiency in the past years.

However, although China Coal manages to reduce unit production cost, its unit production cost (without transportation cost) is higher than Shenhua (Rmb121.2/tonne) and Yitai (Rmb80.8/tonne) for the first 9 months of FY12.

Exhibit: China Coal enlarging the spread between its ASP and selling cost in recent years. (Rmb/tonne, 2006~2012E)

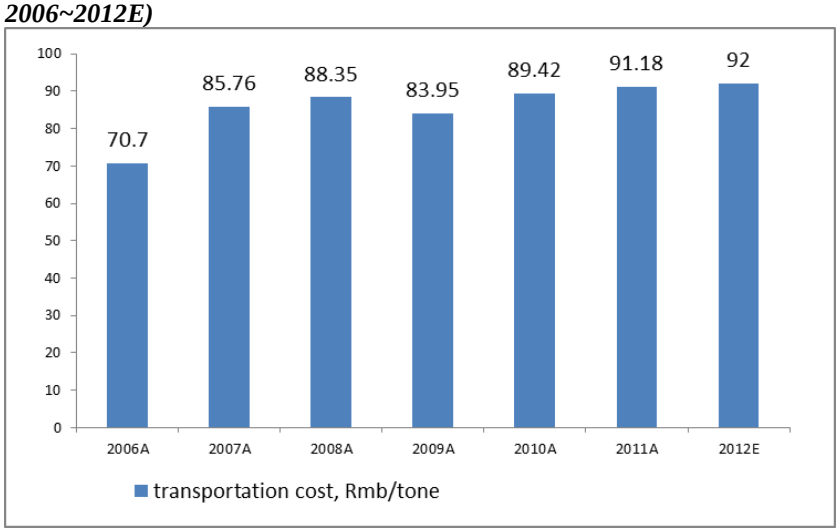


Source: Company data, ABCI Securities

Disadvantage: Lacking of railway transportation capacity

In China, coal-consuming enterprises are concentrated in the eastern and southern regions, which is geographically far away from the coal-production centers. Rail transportation is the main bottleneck for coal trading in China. Transportation forms a major constraint to China Coal. Unlike Shenhua, Yitai and Yanzhou, China Coal does not have its own railway system and thus it has to fully bear the transportation cost, while its peers can generate transportation revenue by providing railway transportation to outsiders. The unit transportation cost of China Coal was rising from Rmb88.5/tonne in 2008 to Rmb91.18/tonne in 2011 and will increase to Rmb92.0/tonne in 2012. Lacking self-managed transportation capacity is a competitive disadvantage factor of China Coal in the near term.

Exhibit: China Coal's transportation cost rising gradually (Rmb/tonne, 2006~2012E)



Source: Company data, ABCI Securities

However, its competitive disadvantage will reduce by jointly establishing Mengxi-Huazhong Railway (MHR), a major north-to-south coal-line in China.

China Coal had entered into the Promoters' Agreement with China Railway Investment and the Other Promoters on 16 August 2012, pursuant to which the parties had agreed to establish MHR Co with an initial registered capital of RMB1bn, which is expected to progressively increase to RMB54bn. Upon completion of the establishment of MHR Co, the counter will own 10% stake of MHR Co.

The route channel of *West Inner Mongolia-Central China Railway* for coal transportation project starts from the Haolebaoji station of Dongwu railway, via the area of Erdos of Inner Mongolia, Yulin of Shaanxi Province, Yan'an, Yuncheng of Shanxi Province, Sanmenxia of Henan Province, Nanyang, Xiangyang of Hubei Province, Jingmen, Jingzhou, Yueyang of Hunan Province and ends at Ji'an of Jiangxi Province, with an overall length of 1,837 kilometers.

The West Inner Mongolia-Central China Railway is the major transportation infrastructure of the 12th Five-year Plan of the PRC, it is also a focused project for coal transportation of the 12th Five Year's Plan for the

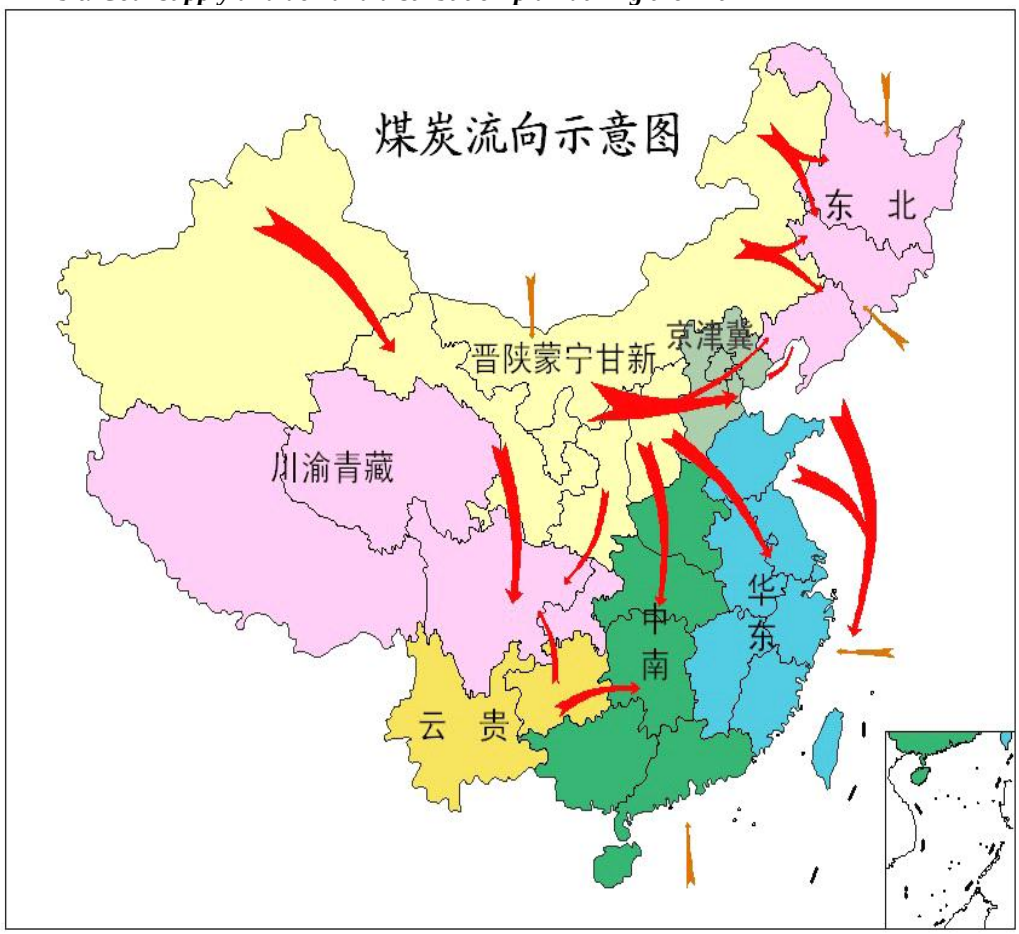
development of integrated transportation system, railway and energy.

This project, which connects the energy "Golden Triangle" in Inner Mongolia, Shaanxi, Gansu, Ningxia, and central China area like Hubei and Hunan Jiangxi, is the new strategic transportation corridor base on "Coal Transportation from North to South Project", and constitutes a significant part of connection of several transportation for collection and distribution for coal, integrate point and network, combined transportation of railway and water, achieves high efficiency in coal transport system and the national integrated transportation system.

According to NDRC's 12th FYP, by 2015, the net coal amount that to be transported across provinces will rise to 1.66 bn tonnes, over 95% of which should be transported from of Inner Mongolia, Shaanxi, Shanxi etc. to the main receiving provinces/municipalities such as Beijing, Tianjin and Hebei provinces.

Coal enterprises, especially those in the West Area of China, rely heavily on the railway network and compete for the transportation quota. We believe China Coal, by joining the MHR railway projects will make use of NDRC's plan to strengthen its sales.

Exhibit: Coal supply and demand distribution plan during the 12th FYP



Source: NDRC

Benefit from industry consolidation

i) China plans to reduce the coal capacity and supply

China encourages the consolidation of coal industry by reducing number of small and medium-sized coal miners and expanding the output capacity of large coal miners. The 12th FYP will vigorously promote the closure of small or inefficient coal mines.

By 2015, China plans to form ten super large coal mining groups with annual production capacity of over 100mn tonnes and ten large coal mining groups with annual production capacity of 50mn tonnes. These two categories of coal mining group will be able to produce 60% of total national coal production.

In 2011, China's top 20 coal producers accounted for 54% of the national production, 13 of them with annual production capacity less than 100mn tonnes and 3 of them with annual production capacity less than 50mn tonnes. To achieve the goal in 2015, industry consolidation has to speed up in coming years. We estimate that the top 20 coal mining groups will account for over 63% market share in 2015.

According to CNCA, China Coal Group is the 2nd largest coal enterprise in 2011. We expect that China Coal will gain more support in coal mine resource and transportation quota from central government.

ii) Industrial entry barriers significantly improved

China has strictly limited the number of coal licences in the coal mine area in recent years. Based on the principle of "one developer for one coal mine area," mergers and reorganizations plans shall be made and implemented for each coal mine area, to reduce the number of coal miners in coal mine area.

Business analysis

Financial concern: lowest ROAE ratio among its H-share peers

Compared with other three thermal coal producers (Shenhua, Yanzhou and Yitai), China Coal consistently reported lower ROAE. In 2011, Shenhua, Yanzhou and Yitai achieved respective ROAE of 21.2%, 22.3% and 35.5%, China Coal's ROAE came in at 12.6%. Although it has significantly reduced its cost in the first 9 months this year, we forecast that its ROAE will decline to 10.3% (2012E) and 10.1% (2013E), lower than its H-share peers.

The lower-than-peers ROAE reflects the weak operational efficiency of the counter compared to its competitors. For example, compared with China Shenhua, the largest coal producer and also an SOE in China, China Coal has significant higher unit coal production cost (Rmb237.1/tonne of China Coal vs. Rmb118.7/tonne of China Shenhua for FY11).

Unit production cost of Yanzhou Coal is comparable to China Coal. The unit production cost of the former was Rmb288.53/tonne for FY11. However, Yanzhou Coal has a high proportion of coal sales from the spot market. This sales mix helped to boost up ASP of Yanzhou Coal. In addition, Yanzhou Coal operates its self-owned railway within Shandong province and its major coal mine is much closer to China's main coal port in Bohai-Rim. Yanzhou Coal has transportation edge against China Coal.

Unit production cost of Yitai Coal is much lower than China Coal. The unit production cost of Yitai Coal was Rmb85/tonne. Yitai also has self-owned railway lines which can significantly reduce its transportation cost and can earn transportation fee from other coal producers. Besides, Yitai outsourced most of its mining operation work to independent third parties, which helps to reduce its safety maintenance fee and are more freely to reduce human cost when the market demand is weak. China Coal, as a SOE directly supervised by central government, has to bear heavy social responsibilities and is reluctant to lay off staff even in bear market.

Valuation & Recommendation

Forecast on business development

Owing to the weak recovery from downstream coal consumption and the competition from import coal, coal prices remain weak in the second half this year. The cyclical downturn of spot coal market in 1H12 has adversely affected the sales performance of China Coal.

China Coal reported 20%/22%YoY decline in the 3rd quarter of 2012 revenue/net profit (Rmb64,604mn/Rmb7,023mn) which were in line with our expectations (76%/80% of our FY12E vs.74%/72% of FY11).

The 5.4% decline in unit production cost will enhance its gross profit margin this year. We predict its revenue in FY12E and FY13E will be Rmb85,373mn and Rmb89,642mn, respectively, representing -2.7%YoY and 5.0%YoY growth.

Valuation and target price

We use both PB and PE multiple methods to appraise the stock. Based on the PER rating, the stock is currently traded at9.1x PE (or 0.9x PB) for FY13E.

We set the 12-month target price of HK$8.3, which represents about 11.2x PE for 2013E, or 1.2x PB for 2013E, and is 5.1% higher than current price. We initiate with Hold rating.

Financial analysis and projection

Exhibit: **Key assumptions for revenue prediction and earnings outlook**

	2010A	2011A	2012E	2013E
Coal sales and price				
Total self-produced coal sales (10,000 tonnes)	8,975	10,015	10,093	10,598
Weighted ASP (Rmb/t)	500	527	543	570
Domestic thermal coal business assumption				
Long-term contract sales (10,000 tonnes)	6,290	5,231	5,247	5,509
Spot market sales (10,000 tonnes)	2,578	4,697	4,818	5,059
Long-term contract price (Rmb/t)	410	425	475	484.5
Spot market price (Rmb/t)	521	562	481	490
Weight of coal sector (%)	79.4	81.7	83.5	83.3
Gross profit margin (%)	20.6	20.9	20.2	20.2

Source: company data, ABCI Securities

Earnings expectations and sensitivity tests on performance and valuation

We forecast net earnings for China Coal of Rmb8,767/9,205mn in 2012E/2013E, about -10.6%/5.0%YoY respectively assuming 4.9%/4.9%YoY increase in its weighted average coal selling price. Below are the earnings sensitivities in our model to changes in coal price.

+/-5% change in contract price ~ 7.15/-7.15% change in net income

+/-5% change in spot market price ~ 6.59/-6.59% change in net income

Sensitivity test on 2013E estimated net income (Rmb mn)

Net Income	2013E	Rise5%	Chg	Down5%	Chg
Contract price chg	9,205	9,863	7.15%	8,547	-7.15%
Spot price chg	9,205	9,812	6.59%	8,598	-6.59%

Source: Company data, ABCI Securities estimates

Consolidated income statements forecast

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
Revenue	70,303	87,773	85,373	89,642	96,813
Coal	55,839	71,741	70,306	73,821	79,727
Coke and coal-chemical product, Rmb mn	4,888	5,274	3,955	4,153	4,485
Machinery, Rmb mn	6,095	7,073	7,427	7,798	8,422
Others, Rmb mn	3,480	3,685	3,685	3,869	4,178
Cost of sales	(55,825)	(69,466)	(68,166)	(71,575)	(77,301)
Gross profit	**14,478**	**18,307**	**17,207**	**18,067**	**19,512**
Other income and gains	333	191	200	211	227
SG&A	(3,749)	(4,574)	(4,803)	(5,043)	(5,447)
Proit from operations	**11,062**	**13,923**	**12,604**	**13,234**	**14,293**
Other income/cost/and loss	(63)	118	(169)	(177)	(192)
Pre-tax profit	10,999	14,041	12,435	13,057	14,101
Profits tax	(2,848)	(3,383)	(3,109)	(3,264)	(3,525)
Net profit	**8,151**	**10,659**	**9,326**	**9,793**	**10,576**
Minority interests	685	857	560	588	635
Equity shareholders of the Company	**7,466**	**9,801**	**8,767**	**9,205**	**9,941**
EPS (Basic), Rmb	**0.56**	**0.74**	**0.66**	**0.69**	**0.75**
Dividend per share, Rmb	**0.16**	**0.22**	**0.19**	**0.20**	**0.21**

Source: Company data, ABCI Securities estimates

Balance sheet forecast

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
Property, plant and equipment	46,418	60,224	72,269	80,941	89,739
Mining and exploration rights	18,611	28,420	31,830	33,421	35,092
Land use rights	2,564	2,815	3,097	2,942	2,942
Other non-current assets	6,643	12,363	16,231	16,723	17,519
Total non-current assets	**74,236**	**103,822**	**123,426**	**134,028**	**145,292**
Inventories	6,215	7,319	8,782	7,035	6,008
Accounts and bills receivable	7,006	7,803	11,704	10,534	9,479
Prepaid expenses and other current assets	5,439	5,643	7,900	7,505	6,755
Cash and cash equivalents	22,922	20,879	15,591	19,242	23,801
Other current assets	7,118	14,468	18,809	18,809	18,809
Current assets	**48,700**	**56,111**	**62,786**	**63,124**	**64,851**
Total assets	**122,936**	**159,933**	**186,213**	**197,152**	**210,144**
Trade and notes payables	(9,254)	(10,917)	(14,192)	(14,902)	(15,647)
Accruals, advance and other payables	(6,997)	(11,676)	(14,596)	(15,325)	(16,092)
Short-term borrowings	(396)	(1,825)	(2,372)	(2,491)	(2,615)
Other short-term liabilities	(2,743)	(4,361)	(4,183)	(4,383)	(4,699)
Total current liabilities	**(19,391)**	**(28,779)**	**(35,343)**	**(37,101)**	**(39,053)**
Long-term borrowings	**(10,716)**	**(11,456)**	**(19,475)**	**(19,865)**	**(20,262)**
Long-term bonds	-	**(14,955)**	**(19,442)**	**(20,414)**	**(22,455)**
Other Non-current liabilities	**(6,491)**	**(8,778)**	**(8,625)**	**(8,714)**	**(8,965)**
Total non-current liabilities	**(17,207)**	**(35,189)**	**(47,542)**	**(48,992)**	**(51,682)**
Total liabilities	**(36,598)**	**(63,968)**	**(82,885)**	**(86,093)**	**(90,735)**
Total equity	86,339	95,965	103,328	111,059	119,409
Non-controlling interests	12,290	14,220	15,311	16,456	17,694
Equity of the firm	**74,049**	**81,745**	**88,017**	**94,603**	**101,715**
Book value/share, Rmb	**5.58**	**6.17**	**6.64**	**7.14**	**7.67**

Source: Company data, ABCI Securities estimates

Consolidated cash flow statements forecast

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
Profit before income tax	**10,999**	**14,042**	**12,435**	**13,057**	**14,101**
DD&A	3,752	4,750	4,872	4,950	5,049
Financial cost	(656)	(694)	(694)	(729)	(765)
Financial income	781	352	352	370	388
(Increase) decrease in inventories	(1,254)	(1,197)	(1,464)	1,748	1,027
Decrease in trade and bills receivables	(2,123)	(1,742)	(3,901)	1,170	1,054
Other adj. items	(816)	(813)	(317)	(1,190)	(1,013)
CF Operating	**10,683**	**14,698**	**11,283**	**19,376**	**19,842**
Purchases of property, plant and equipment	(12,060)	(19,047)	(17,523)	(17,874)	(18,767)
Others	13,525	(16,131)	(7,091)	(3,137)	(3,137)
CF Investing	**1,466**	**(35,178)**	**(24,615)**	**(21,011)**	**(21,905)**
Cash flows from short-term borrowing activities	9.215	1628.5	2070.3	2173.82	2282.506
Cash flows from long-term borrowing activities	(276)	3,693	5,045	5,297	5,562
Cash flows from other financing	(1,586)	13,122	935	(2,178)	(1,216)
CF from/(used) in Financing activities	**(1,853)**	**18,443**	**8,050**	**5,292**	**6,628**
Net change in cash	**10,296**	**(2,037)**	**(5,281)**	**3,658**	**4,566**
Cash at the beginning	12,628	22,922	20,879	15,591	19,242
Exchange difference	**(2)**	**(7)**	**(7)**	**(7)**	**(7)**
Cash at the end	**22,922**	**20,879**	**15,591**	**19,242**	**23,801**

Source: Company data, ABCI Securities estimates

Peer Group Comparison

General business comparison (FY11 data)

FY11	China Shenhua	China Coal	Yanzhou Coal	Yitai Coal
Code	**1088**	**1898**	**1171**	**3948**
Business summary				
Commercial coal production (mn tonnes)	281.9	102.79	50.911	35.1
Coal sales (mn tonnes)	387.3	**134.7**	64.25	38.3
Gross power generation (bn kwh)	179.97	**0.427**	1.367	NA
Total power output dispatch (bn kwh)	167.61	**NA**	0.933	NA
Coal resources (100 mn tonnes)	254	**196.4**	45.48	14.33
Coal production cost for saleable coal (Rmb/t)	118.7	**237.1**	288.53	85
Coal production cost for self-produced saleable coal (Rmb/t) (Jan.~Sep. 2012)	121.2	**217.64**	335.08	80.8
Financial Data				
Revenues (Rmb mn)	208,197	**87,773**	47,066	16,516
Profit for the year (Rmb mn)	52,509	**10,659**	8,976	5,749
Profit to equity shareholders (Rmb mn)	45,677	**9,802**	8,928	5,464
Total assets (Rmb mn)	401,077	**159,933**	97,152	30,069
Total liabilities (Rmb mn)	136,763	**63,968**	53,827	11,285
ROAA	11.8	**6.9**	9.7	38
ROAE	21.2	**12.6**	20.5	36
Dividend (inclusive of tax) (Rmb per share)	0.9	**0.215**	0.57	1.35
Dividend Yield (%)	3.62	**3.69**	5.78	3.82
Basic EPS (Rmb per share)	2.296	**0.74**	1.82	3.36
BVPS (Rmb per share)	11.35	**6.17**	8.67	10.5

Source: Bloomberg, ABCI Securities

Comparison of coal sales volume（mn tonnes）

1H12	China Shenhua	China Coal	Yanzhou Coal	China Coal	FY11	China Shenhua	China Coal	Yanzhou Coal	Yitai Coal
	1088	1898	1171	3948		1088	1898	1171	3948
Commercial Coal Sales	155.8	55.24	29.48	17.2	Commercial Coal Sales	281.9	102.79	50.91	35.1
Domestic sale	219.8	53.36	n.a	27.0	Domestic sale	381.7	99.41	n.a	38.3
Contract sale	88.9	23.52	n.a	15.6	Contract sale	171.7	51.78	n.a	19.0
Spot market sale	130.9	29.84	n.a	11.4	Spot market sale	210	47.63	n.a	19.3
Export	2.2	0.39	n.a	n.a	Export	5.6	0.74	n.a	n.a
Total sale volume	222.1	72.09	42.47	27.0	Total sale volume	387.3	134.7	64.25	38.3

Source: Company data, Bloomberg, ABCI Securities

Comparison of sector financial performance (1H12) and market prediction

1H12	China Shenhua	China Coal	Yanzhou Coal	Yitai Coal	2012E	China Shenhua	China Coal	Yanzhou Coal*	Yitai Coal
	1088	1898	1171	3948		1088	1898	1171	3948
Revenue, Rmb mn	121,468	45,407	28,286	12,614	Revenue, Rmb mn	234,328	85,373	52,628	23,711
GPM, %	35	21	27	38	GPM, %	36	20	31	38.5
Net Profit, Rmb mn	26,741	5,123	5,256	3,194	Net Profit, Rmb mn	46,783	8,737	6,637	5,674
EPS, Rmb	1.34	0.39	1.07	2.18	EPS, Rmb	2.35	0.66	1.36	3.49
BVPS, Rmb	11.78	6.32	8.99	14.44	BVPS, Rmb	12.91	6.6	9.51	14.9
ROAE, %	11.56	6.2	12.1	10.9	ROAE, %	18.9	10.3	14.2	26.8

** Estimation on Bloomberg*
Source: Company data, Bloomberg, ABCI Securities

Risk factors

Economic risk: If the macro economy worsens in 4Q12, there would be weak power consumption growth on slowed economic growth. Though we believe that Chinese government would impose monetary and fiscal measures to boost the economy, we do not expect a V-shape recover. On the contrary, L-shape is the lucky one. Accordingly, the power generation, though will recover in 4Q12 and 1Q13, will be still slowed on YoY basis.

Competition from foreign coal producers: The influx of foreign coal prohibiting the rebound momentum of domestic coal prices. In addition, more and more American coal producers turn to India and China market, which would increase the supply of coal to China.

Sector development risk: China is implementing its energy saving policy, and many more new measures would be implemented. One of the directions is to reduce the carbon emission and reduce the weight of thermal power generated in the overall power consumption. This would likely dampen coal consumption.

Resources tax: China is considering to change the coal resources tax system and the change may lead to increase in amount of resources tax. The profitability of the group may be adversely affected by the change in resources tax system.

Firm-specific Risk:

1. Production interruption due to unexpected coal mine accidents;
2. Unable to secure sufficient railway transportation quota to deliver and fulfill customers' demand, sales are constrained subsequently;
3. Weak coal price discourage coal miners to increase capex, sales of coal mining machinery is adversely affected;
4. Unit production cost may move unfavorably to China Coal and unit gross profit is adversely affected;
5. Low-cost competitors may slash ASP to compete for market share when market is consolidating, China Coal may need to follow suit to defense or expand market share, and profitability of China Coal may be adversely affected.

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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