

Key Data

Share price (HK\$)	7.86
52Wk H/L(HK\$)	10.5/ 6.08
Issued shares (mn)	13,259
- H Shares (mn)	4,107
- A Shares (mn)	9,152
Market cap	
- H Shares (HK\$mn)	32,281
- A Shares (Rmbmn)	65,345
3-mth avg vol (HK\$mn)	232.23
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	11.2	6.0
3-mth	22.2	7.0
6-mth	(8.0)	(13.4)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst:

Mark Chen
Tel: (852) 2147 8819
Email: markchen@abci.com.hk

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

Recovering signal from 3Q report

Earnings will be more volatile as proportion of sales of thermal coal at spot increases. This will be positive as coal prices are recovering. We observe some +ve developments in 3Q – strong q-o-q rebound of coke output and bottom line. We become more optimistic in 4Q which is peak season of the thermal coal industry.

Higher proportion of coal sales at spot leading to higher earnings volatility. Sales volume of self-produced coal for the first 9 months edged up 6.6%yoy, with self-produced thermal coal sales up 7.5%yoy. Domestic sales of thermal coal at spot market, about 52.7% of total sales of self-produced thermal coal, surged 28.2%yoy during the period. Meanwhile, relevant domestic contract sales, about 47.3% of total sales of self-produced thermal coal, were down 8.7%yoy. This composition change will lead the group's earnings to be more sensitive to spot coal prices.

Recovering demand for coke. Its coke output vol. down 20.5%yoy for the first 9 months, but output in 3Q rebounded 39.1%qoq, suggesting demand from downstream steel industry is recovering.

3Q net profit showed strong rebound. Its net profit dropped 14.8%yoy to Rmb7023.4mn for 3Q but rebounded 37.1%qoq.

Unit selling coat significantly reduced. The unit cost of self-produced commercial coal for the first nine months this year was Rmb217.64/ton, down 5.4%yoy or 8.2% below average cost in FY11.

Attractive valuation. The counter is at 0.98x P/B as of NBV/share at 30 Sep., 2012. We believe the market stays cautious on the counter. The cautious attitude will ease as some positive signs are observed in the 3Q financial and operating statistics.

Risk factors: 1) Coal price risk; 2) Weak power consumption growth on slow economic growth; 4) Possible change of resources tax system.

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)	—	—	—	—	8.6
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 : China Coal's major production and operation data as of 30 Sep., 2012

	January to September, 2012	January to September, 2011 (restated)	Percentage change (YoY) %
I. Commercial coal production volume (10,000 tonnes)	8,243	7,726	6.7
Including: China Coal Pingshuo Company	6,602	5,999	10.1
Shanghai Company	559	580	(3.6)
Huajin Coking Coal Company	N. A	149	(100.0)
China Coal Huajin Company	31	N. A	N. A
Dongpo Company	616	525	17.3
Nanliang Company	141	135	4.4
Dazhong Company	291	243	19.8
Shuozhong Energy	503	433	16.2
Shanxi Company	22	N. A	N. A
II. Commercial coal sales volume (10,000 tonnes)	10,614	10,136	4.7
(I) Self-produced commercial coal	8,008	7,509	6.6
1. Thermal coal	7,980	7,422	7.5
(1) Domestic sale	7,928	7,365	7.6
Of which: Long-term contract	3,748	4,105	(8.7)
Spot trading	4,180	3,260	28.2
(2) Export	52	57	(8.8)
Of which: Long-term contract	52	57	(8.8)
Spot trading	N. A	N. A	N. A
2. Coking coal	28	87	(67.8)
(1) Domestic sale	28	87	(67.8)
Of which: Long-term contract	N. A	21	(100.0)
Spot trading	28	66	(57.6)
(2) Export	N. A	N. A	N. A
Of which: Long-term contract	N. A	N. A	N. A
Spot trading	N. A	N. A	N. A
(II) Proprietary coal trading	2,345	2,396	(2.1)
Of which: Domestic resale	2,010	2,172	(7.5)
Self-operated exports	2	4	(50.0)
Import trading	328	220	49.1
Transshipment trading	5	N. A	N. A
(III) Import and export agency	261	231	12.9
Of which: Import agency	89	N. A	N. A
Export agency	172	231	(25.5)
III. Coke production volume (10,000 tonnes)	128	161	(20.5)
IV. Output value of coal mining equipment (RMB10,000)	659,318	630,588	4.6

Source: Company data



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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183