



# Company Report

## China Coal (1898 HK) – HOLD China Coal & Consumable Fuels Industry 12-month target price: HK\$8.88

### Key Data

Target Price (HK\$)	8.88
H-Share price (HK\$)	8.30
Upside potential (%)	6.9
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)	34,044
A Shares (Rmb mn)	67,267
3-mth avg daily turnover (HK\$mn)	240
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	12.18	1.78
3-mth performance	15.46	(1.31)
6-mth performance	18.60	3.44

\*Relative to HSCEI Index

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

### Analyst

Report Date: 18 December, 2012

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Previous report: 10 December, 2012

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### Raise TP in light of better-than-expected thermal coal sale

We upgrade China Coal (1898 HK)'s 12-month target price (TP) from HK\$ 8.3 to HK\$8.88, implying 6.9% upside from the current price. In November, the coal machine business grew rapidly by 19.2%YoY (or 6.3%MoM) and thermal coal sales surged by 38.7%YoY. We raise the 2013E EPS from HK\$0.69 to HK\$0.74. However, the stock price has largely factored in the growth drivers and we maintain Hold rating on the stock.

**Better-than-expected business development:** Sales volume of self-produced thermal coal for domestic market in November increased by 7.9%YoY (or 10.8%MoM), reaching 98.02mn tonnes. Besides, domestic coal trading sales in November reached 4.26mn tonnes, with YoY growth of 111.9%, or MoM growth of 79.7%. In addition, sales of the coal machine were RMB 662.12 mn, posting a YoY growth of 9.2% (6.3% MoM).

By the end of November, China Coal's self-produced thermal coal sales to domestic market and the revenue from coal machine have reached 97% and 116% of our estimates respectively. Accordingly, we revise up our 2012E/2013E net profit estimates from Rmb8,767mn/Rmb9,205mn to Rmb9,325mn/Rmb9,773mn (6.3%/6.1% YoY). 2012E/2013E EPS was also revised up from Rmb0.66/Rmb0.69 to Rmb0.70/Rmb0.74 (6.0%/7.2% YoY).

**Raise target price:** Based on 1.2x/12.4x 2013E PB/PE ratio, we raise China Coal's TP from HK\$8.3 to HK\$8.88, with 6.9% upside potential from the current price.

**Valuation:** Though we are optimistic about the business development of China Coal, the share price has increased by 10.3% since Dec.4<sup>th</sup>, 2012 and we believe that the current 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	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)	—	—	9.0	9.5	9.0
P/B (x)	—	—	1.1	1.0	0.9
Dividend yield (%)	—	—	3.0	3.1	3.4
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\$1.24)



**Better-than-expected business development:** Though underwent a cold coal market, China Coal's thermal coal sales for domestic market improved in November. Its self-produced thermal coal sales for domestic market reached 9.55mn tonnes in November, improved by 22% YoY, or 10.8% MoM. Its thermal coal sales for domestic market for the first 11 months grow 7.9% YoY, reaching 98.02mn tonnes and achieving 97% of ABCI estimates.

In November, its total coal sales volume surged by 38.7YoY (or 20.5% MoM) to 14.2mn tonnes. However, a large portion (56.8%) of the net growth came from its less-profitable domestic coal trading sector, which reached 4.26mn tonnes, up 111.9% YoY (or improved by 79.7% MoM). By the end of November, its total coal sales reached 132.12mn tonnes and achieved 97.9% of ABCI estimates.

Besides, in November, its revenue from the coal machine business was Rmb662.12mn, up 19.2% YoY (or 6.3% MoM). By the end of November, the coal machine revenue has reached Rmb7878.31mn, achieving 116% of ABCI estimates. This is quite a rapid progress considering the cool coal production sentiment.

In our view, the thermal coal sales reflected the recovering demand from downside thermal power sector while the revenue improvement in coal machine indicates an on-going sector congregation. Accordingly, we revised up our 2012E/2013E net profit estimation by 6.3%/6.1% from Rmb8,767mn/Rmb9,205mn to Rmb9325mn/Rmb9,773mn. 2012E/2013E EPS was revised up by 6.0%/7.2%, from Rmb0.66/Rmb0.69 to Rmb0.7/Rmb0.74.

**Coal prices expected to be stabilized. Domestic coal prices remain stable, but international thermal coal prices have increased significantly.** Australia BJ thermal coal price has reached USD93.25/t, after 4 consecutive weeks' recovery, up 16% from USD80.35/t on Nov. 8. Import coal price will increase and price competitiveness of import coal reduces. The move will lend support to domestic coal prices.

On the other side, QHD coal inventory reduced to 6.53mn tonnes, down 4% wow from the 6.8mn tonnes level on Dec 1 (30.4% lower than the peak level of 9.38mnt in Jun). Also, National Bureau of Statistics of China unveiled average daily power output rebounded 6.3% MoM to 134Gwh in Nov from 126Gwh in Oct. These two statistics suggest downstream demand for coal is recovering.

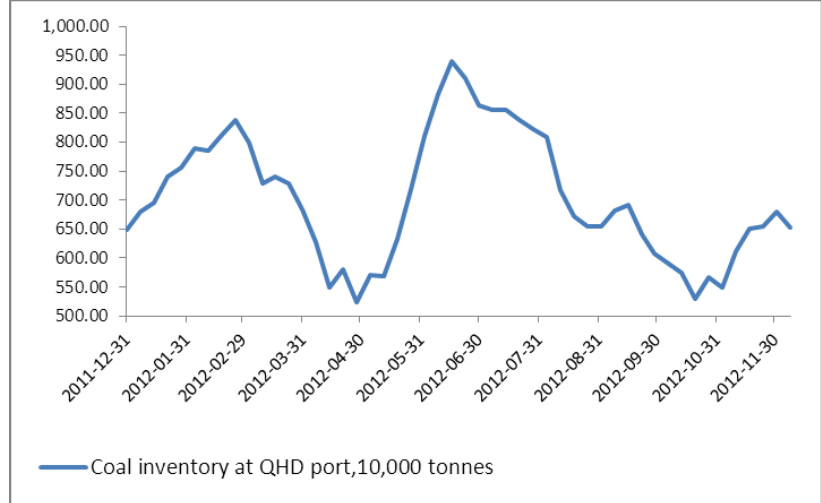
**Our concern:** China Coal consistently has the lowest ROAE among H-share peers. Low ROAE ratio does not justify the counter to trade at huge premium to its NBV.

**Valuation:** Based on 1.2x/12.4x 2013E PB/PE ratio, we improved China Coal's target price from HK\$8.3 to HK\$8.88, with 6.9% upside potential from the current price. Though we are optimistic on its business development, its price has improved by 10.6% since Dec.4<sup>th</sup>, 2012, and we believe that 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.

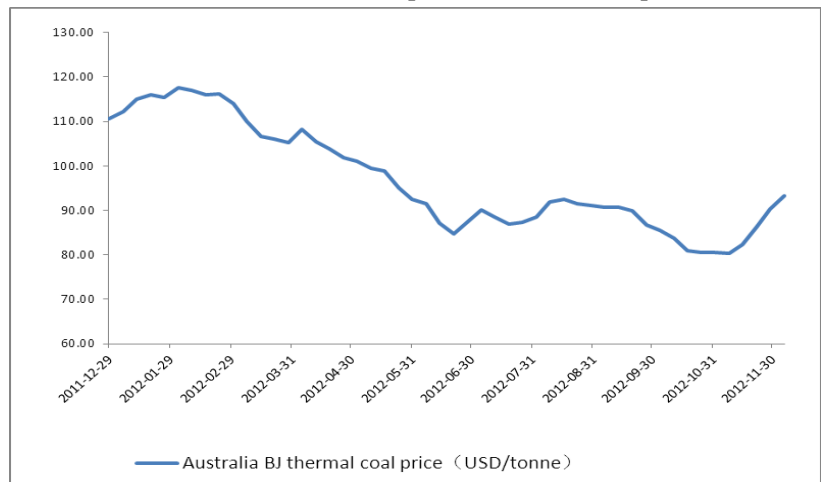


**Exhibit1: Coal inventory at QHD port (10,000 tonnes, up to Dec. 8, 2012)**



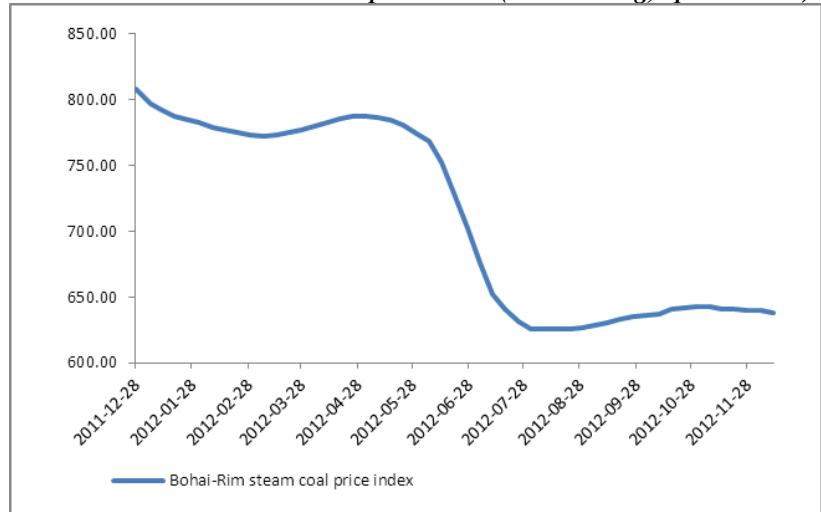
Source: Wind, ABCI Securities

**Exhibit2: Australia BJ thermal coal price (USD/tonne, up to Dec. 6, 2012)**



Source: Wind, ABCI Securities

**Exhibit3: Bohai-Rim steam coal price index (5500 kcal/kg, up to Nov 29)**



Source: Wind, ABCI Securities



**Exhibit4: major operational data of China Coal**

Operational indicators	2012		2011 (Restated)		YoY chg (%)	
	November	For the 11-mons ended 30 Nov.	November	For the 11-mons ended 30 Nov.	November	For the 11-mons ended 30 Nov.
1.Commercial coal production volume (10k tonnes)	997	10095	832	9414	19.8	7.2
2.Coke production volume (10k tonnes)	15	155	13	192	15.4	-19.3
3.Output value of coal mining Equipment production (10k Rmb)	66212	787831	55530	748325	19.2	5.3
4.Coal sales volume (10k tonnes)	1420	13212	1024	12291	38.7	7.5
(1) Domestic sales of self-produced coal (10k tonnes)	955	9802	783	9085	22	7.9
(2) Export sales of self-produced coal (10k tonnes)	4	60	12	74	-66.7	-18.9
(3) Domestic coal trading (10k tonnes)	426	2673	201	2602	111.9	2.7
(4) Export agency sales and proprietary export sales (10k tonnes)	13	208	19	266	-31.6	-21.8
(5) Import agency sales and proprietary import sales (10k tonnes)	22	469	9	264	144.4	77.7

Source: company data, ABCI Securities

**Consolidated income statements forecast**

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
<b>Revenue</b>	70,303	87,773	89,068	93,464	100,964
Coal	55,839	71,741	75,005	78,500	85,253
Coke and coal-chemical product, Rmb mn	4,888	5,274	3,955	4,351	4,568
Machinery, Rmb mn	6,095	7,073	8,134	8,541	8,968
Others, Rmb mn	3,480	3,685	1,973	2,072	2,175
Cost of sales	(55,825)	(69,466)	(71,005)	(74,556)	(80,520)
<b>Gross profit</b>	<b>14,478</b>	<b>18,307</b>	<b>18,062</b>	<b>18,908</b>	<b>20,444</b>
Other income and gains	333	191	200	211	227
SG&A	(3,749)	(4,574)	(4,803)	(5,043)	(5,447)
<b>Profit from operations</b>	<b>11,062</b>	<b>13,923</b>	<b>13,460</b>	<b>14,075</b>	<b>15,225</b>
Other income/cost/and loss	(63)	118	(232)	(212)	(232)
Pre-tax profit	10,999	14,041	13,228	13,863	14,993
Profits tax	(2,848)	(3,383)	(3,307)	(3,466)	(3,748)
<b>Net profit</b>	<b>8,151</b>	<b>10,659</b>	<b>9,921</b>	<b>10,397</b>	<b>11,244</b>
Minority interests	685	857	595	624	675
<b>Equity shareholders of the Company</b>	<b>7,466</b>	<b>9,801</b>	<b>9,325</b>	<b>9,773</b>	<b>10,570</b>
<b>EPS (Basic), Rmb</b>	<b>0.56</b>	<b>0.74</b>	<b>0.70</b>	<b>0.74</b>	<b>0.80</b>
<b>Dividend per share, Rmb</b>	<b>0.16</b>	<b>0.22</b>	<b>0.20</b>	<b>0.21</b>	<b>0.23</b>

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
<b>Total non-current assets</b>	<b>74,236</b>	<b>103,822</b>	<b>123,426</b>	<b>134,028</b>	<b>145,292</b>
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	16,258	20,390	25,498
Other current assets	7,118	14,468	18,809	18,809	18,809
<b>Current assets</b>	<b>48,700</b>	<b>56,111</b>	<b>63,454</b>	<b>64,273</b>	<b>66,549</b>
<b>Total assets</b>	<b>122,936</b>	<b>159,933</b>	<b>186,880</b>	<b>198,300</b>	<b>211,841</b>
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)	(4,381)	(4,585)	(4,922)
<b>Total current liabilities</b>	<b>(19,391)</b>	<b>(28,779)</b>	<b>(35,541)</b>	<b>(37,303)</b>	<b>(39,275)</b>
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)
<b>Total non-current liabilities</b>	<b>(17,207)</b>	<b>(35,189)</b>	<b>(47,542)</b>	<b>(48,992)</b>	<b>(51,682)</b>
<b>Total liabilities</b>	<b>(36,598)</b>	<b>(63,968)</b>	<b>(83,083)</b>	<b>(86,295)</b>	<b>(90,958)</b>
Total equity	86,339	95,965	103,797	112,006	120,883
Non-controlling interests	12,290	14,220	15,380	16,597	17,912
<b>Equity of the firm</b>	<b>74,049</b>	<b>81,745</b>	<b>88,417</b>	<b>95,409</b>	<b>102,971</b>
<b>Book value/share, Rmb</b>	<b>5.58</b>	<b>6.17</b>	<b>6.67</b>	<b>7.20</b>	<b>7.77</b>

Source: Company data, ABCI Securities estimates

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**China Coal Energy Co., Ltd.****Consolidated cash flow statements forecast**

As of Dec 31 (Rmb mn)	2010A	2011A	2012E	2013E	2014E
<b>Profit before income tax</b>	<b>10,999</b>	<b>14,042</b>	<b>13,228</b>	<b>13,863</b>	<b>14,993</b>
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)	(442)	(1,347)	(1,183)
<b>CF Operating</b>	<b>10,683</b>	<b>14,698</b>	<b>11,951</b>	<b>20,026</b>	<b>20,563</b>
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)
<b>CF Investing</b>	<b>1,466</b>	<b>(35,178)</b>	<b>(24,615)</b>	<b>(21,011)</b>	<b>(21,905)</b>
Cash flows from short-term borrowing activities	9,215	1628.5	2070.3	2173.82	2282.50575
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	(2,347)	(1,388)
<b>CF from/(used) in Financing activities</b>	<b>(1,853)</b>	<b>18,443</b>	<b>8,050</b>	<b>5,124</b>	<b>6,456</b>
<b>Net change in cash</b>	<b>10,296</b>	<b>(2,037)</b>	<b>(4,614)</b>	<b>4,139</b>	<b>5,115</b>
Cash at the beginning	12,628	22,922	20,879	16,258	20,390
Exchange difference	(2)	(7)	(7)	(7)	(7)
<b>Cash at the end</b>	<b>22,922</b>	<b>20,879</b>	<b>16,258</b>	<b>20,390</b>	<b>25,498</b>

Source: Company data, ABCI Securities estimates



## Disclosures

### Analyst Certification

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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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