

## Revenue composition in 1H12 (%)

Coal	75.7
Power	17.1
Coal related	3.6
Railway	1.6
Others	2.0

Source: Company, ABCI Securities

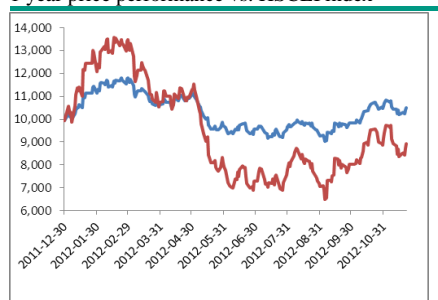
## Sector performance (%)

	Absolute	Relative*
1-mth	(4.6)	(2.3)
3-mth	4.7	(3.4)
6-mth	4.9	(3.2)

Source: Bloomberg

\*Relative to HSCEI Index

1 year price performance vs. HSCEI index



Source: Bloomberg, ABCI Securities

## Thermal Coal Sector-Neutral China Coal & Consumable Fuels Industry

### Expecting coal prices to recover in Dec

Coal stocks tumbled this month in absolute term or relative term when thermal coal prices softened in Nov as IPPs slowed down their coal procurements this month. However, we anticipate IPPs will increase their procurements again in Dec as their coal inventory at the end of Oct was last for 29 days use in average. Bohai-Rim price eased Rmb2.0/ton to Rmb641/ton for first two weeks in Nov. We see recent stock price correction is opportunity. As coal price control is expected to be lifted next year, we prefer to coal producers with competitive cost advantage such as Shenhua (1088 HK) and Yitai (3948 HK).

**IPPs slowed coal procurement in Nov.** As per our channel check, coal suppliers and IPPs are preparing to engage in talks in respect of the coal sales/procurement contracts for next year. However, the NDRC has not issued the details guidance on pricing mechanism. IPPs had piled up their coal inventory last two months and slowed down their coal procurement this month. Subsequently, coal prices soften a bit this month and coal inventory in the Qinhuangdao port is rising. Volume of coal piled-up in IPPs on Oct 31 was enough for their 29 days of operation in average. We anticipate IPPs will increase their procurements in Dec again.

**Economy shows improving sign.** After 3mths' consecutive growth, HSBC PMI index has reached 50.4, a positive sign of economic recovery in FY13. We do not expect the coal prices to drop abruptly further.

Though QHD inventory rebounded a little, it won't affect coal prices significantly. In fact, the inventory day index of main national IPPs has dropped slightly (to 27days) in early November due to peak season demand, and it is expected to go down further, according to our channel check.

**The expected lift of the dual prices system should have different impact on coal producers.** Without price control, ceiling of profit margin of low cost producers will be removed. We prefer to coal producers with cost advantage.

**Risk factors:** 1) weaker-than-expected economic growth; 2) the influx of imported coal cap the domestic coal prices; 3) possible change of resources tax system or environment policies.

## Valuation

Name	Code	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	FY11	FY12	Cost Change (%)
						Cost	(1-3Q)Cost	
						Rmb/t	Rmb/t	
Shenhua	1088 HK	Buy	32.3	38.9	20.4	118.7	121.2	2.1
Yitai Coal	3948 HK	Buy	43.4	50.54	16.4	85.0	80.8	(4.9)
China Coal	1898 HK	Unrated	7.87	na.	na.	237.1	217.6	(8.2)
Yanzhou Coal	1171 HK	Unrated	11.92	na.	na.	288.5	335.1	16.2

Source: Company, Bloomberg, ABCI Securities estimates

## Analyst:

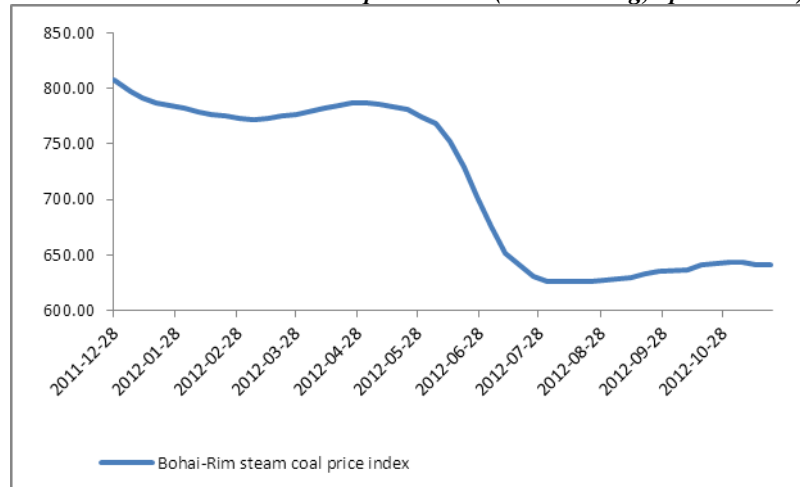
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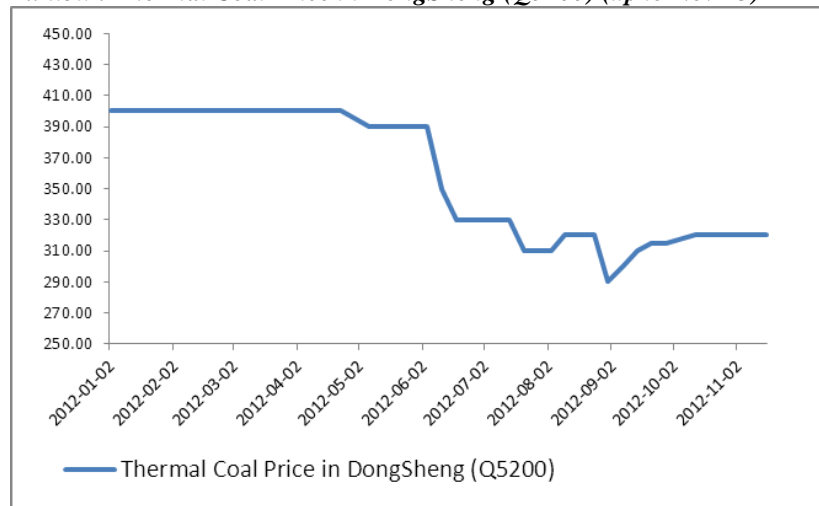


**Exhibit : Bohai-Rim steam coal price index (5500 kcal/kg, up to Nov 21)**

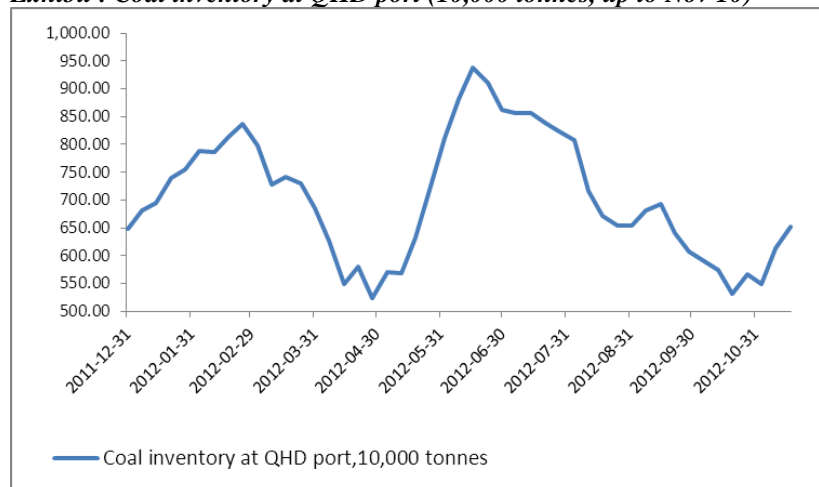


Source: Wind, ABCI Securities

**Exhibit : Thermal Coal Price in DongSheng (Q5200) (up to Nov 23)**



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



Source: Wind, ABCI Securities



Shenhua PB (up to Nov 23, 2012)



Source: Bloomberg, ABCI Securities

Shenhua PE Chart (up to Nov 23, 2012)



Source: Bloomberg, ABCI Securities

China Coal PB (up to Nov 23, 2012)



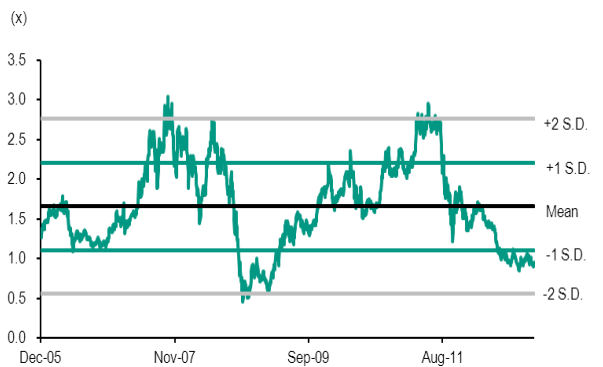
Source: Bloomberg, ABCI Securities

China Coal PE Chart (up to Nov 23, 2012)



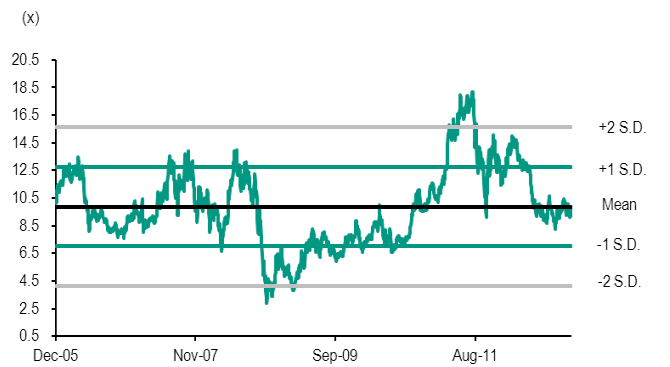
Source: Bloomberg, ABCI Securities

Yanzhou Coal PB (up to Nov 23, 2012)



Source: Bloomberg, ABCI Securities

Yanzhou Coal PE Chart (up to Nov 23, 2012)



Source: Bloomberg, ABCI Securities

## 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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