

## Sector Rating: Neutral

## Thermal Coal Sector China Coal & Consumable Fuels Industry

### Revenue composition in 1H12 (%)

Coal	75.7
Power	17.1
Coal related	3.6
Railway	1.6
Others	2.0

Source: Company, ABCI Securities

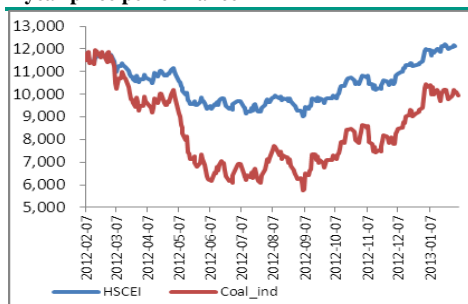
### Sector performance (%)

	Absolute	Relative*
1-mth	(7.0)	(6.3)
3-mth	1.9	(8.5)
6-mth	6.0	(14.8)

Source: Bloomberg

\*Relative to HSCEI Index

### 1 year price performance



Source: Bloomberg

Bohai-Rim steam coal price index (5500 kcal/kg) dropped to Rmb627/t on 6 February 2013, near to the lowest price in 2012 while the price index has declined for eight consecutive weeks. Coal inventory at QHD port piled up to 8.05mnt in early February, up 33%MoM. The coal data justify our cautious view regarding the recovery of thermal coal sector. We expect coal price to bottom out after the Chinese New Year (CNY) holidays and see some positive factors ahead:

- Demand is expected to recover after the Lunar New Year.** Thermal coal demand weakened in recent weeks due to seasonal factor, as downstream industrial demand for power will reduce during CNY holidays. We expect the demand for power will regain momentum after the CNY holidays.
- Stricter safety requirement during NPC and CPPCC period:** In preparation for the NPC (the National People's Congress) and CPPCC (Chinese People's Political Consultative Conference), the government has ordered to strengthen the safety requirement for coal production. Output limitation will be put on small- and medium- sized coal producers, leaving more room for larger-sized coal producers to increase production.

**Stay cautious in 2013.** Although real industrial output recorded 0.85-0.87%MoM growth during the last three months of 2012, domestic coal prices remained weak during the same period. Weakness of thermal coal price was mainly due to increasing usage of hydropower and imported coal. These two factors will continue to depress demand for domestic coal in 2013.

**Valuation.** The sector underperformed the HSCEI in 1-mth & 3-mth horizon. China Shenhua (1088 HK; BUY) is the major laggard among four H-share coal stocks. It is a catch-up play.

**Risk factors:** 1) Coal price risk; 2) Weak downstream demand due to weaker-than-expected economic growth; 4) Change of resources tax.

### Analyst

Report Date: 7 Feb., 2013

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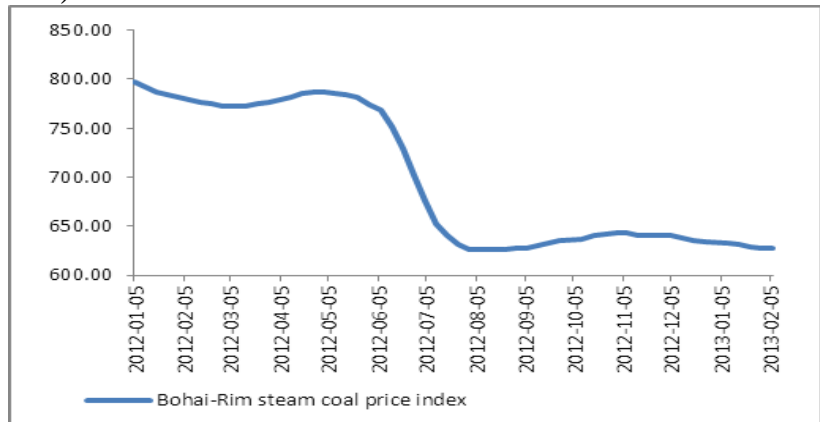
### Performance and Valuation

Name	Code	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E PER	13E PBV	13E Yield
China Shenhua	1088 HK	Buy	30.75	38.9	26.50	12.37	2.51	3.17
China Coal	1898 HK	Hold	8.15	8.88	8.96	14.24	1.46	2.00
Yitai Coal	3948 HK	Buy	43.45	50.54	16.32	12.38	3.07	2.26

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

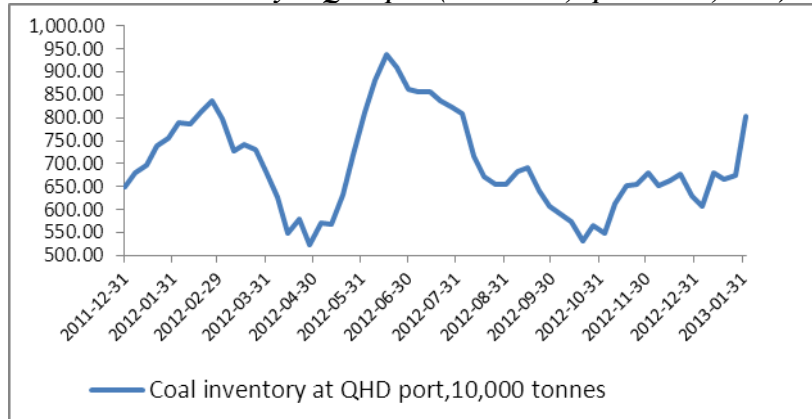


**Exhibit 1: Bohai-Rim steam coal price index (5500 kcal/kg, up to Feb. 6, 2013)**



Source: Wind, ABCI Securities

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



Source: Wind, ABCI Securities

**Exhibit 3: Stock price and index performance**

Name	Code	Price (HK\$)	1-mon chg (%)	3-mon chg (%)	6-mon chg (%)
China Shenhua	1088	30.75	(8.91)	(4.95)	6.55
China Coal	1898	8.15	(5.41)	3.83	9.66
Yanzhou Coal	1171	12.84	(6.71)	6.87	1.71
Yitai Coal	3948	43.45	(1.91)	1.39	0.34
HSCEI	HSCEI	11676.31	(0.74)	10.39	20.75

Source: Company, 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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