

Key Data

Ave. PER (2012E, x)	8.81
Ave. PB (2012E, x)	1.5
Ave. Div.Yield, (2012E, %)	3.8

Source: Bloomberg, ABCI Securities

Revenue composition in 1H12 (%)

Coal	75.7
Power	17.1
Coal related	3.6
Railway	1.6
Others	2.0

Source: Company, ABCI Securities

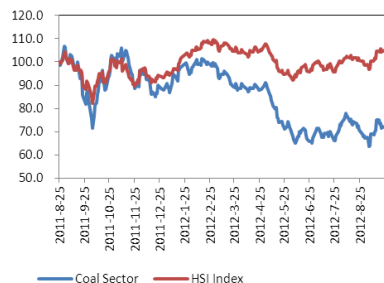
Sector performance (%)

	Absolute	Relative*
1-mth	1.4	(2.7)
3-mth	7.5	(1.4)
6-mth	(19.9)	(20.0)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance vs. HSI index



Source: Bloomberg, ABCI Securities

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Thermal Coal Sector

4Q outlook: large players benefit from industry consolidation

We expect slowdown of China economic growth to stabilize in 4Q. Moreover, thermal power growth will pick up in 4Q12 & 1Q13 as hydropower sector will be in low seasons, demand for thermal coal will rise in coming two quarters. As government encourages industry consolidation due to environmental concern and upgrade of production safety, market shares of small to medium-sized coal miners will be displaced by large miners. We prefer to large coal miners.

Coal price outlook: Domestic coal prices are stabilizing in Sep after sharp correction in Jul-Aug. The fiscal stimulus policy unveiled in 3Q will factor into underlying economy in 4Q. Demand for energy resources will be boosted subsequently.

From international perspective, the quantitative easing programs initiated by EU, US and Japan will lend support to global energy prices when those programs are run in full swing in coming several months. The price gap between international coal and domestic coal will narrow.

Rapid industrial reshape, due to: 1) suspension of production of small coal miners; 2) stern safe measures push up the cost of coal miners; 3) government-guided acquisition improves the strength and coal resources of large competitors; 4) potential prices and resources tax reforms would eliminate more competitors from the thermal coal market.

Investment theme: In the short-term, demand for thermal coal from thermal power will increase in coming two quarters as hydropower sector will enter into low seasons. For specific stocks, we prefer to large coal miners with self-owned railway system, such as China Shenhua (1088 HK) and Yitai Coal (3948 HK).

Risk factors: 1) weaker power consumption growth on slowed economic growth; 2) the influx of foreign coal cap the rebound momentum of domestic coal prices; 3) possible change of resources tax system.

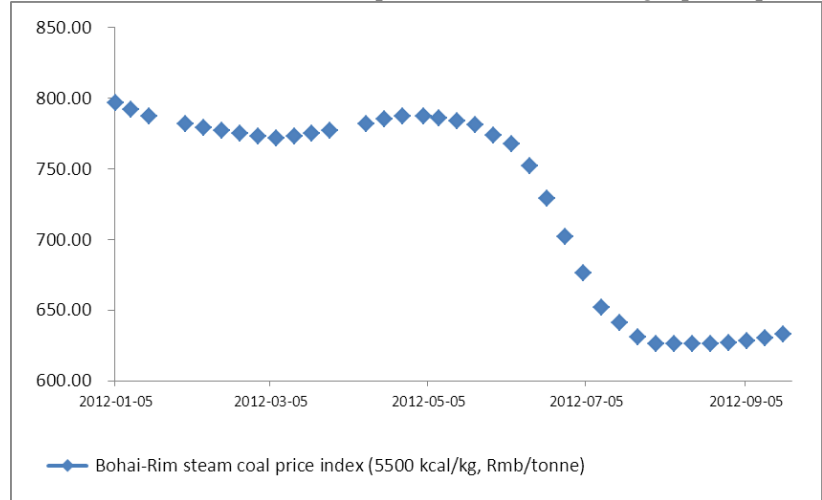
Valuation

Name	Code	Price (HK\$)	2011 PE	2011 PB	2012E PE	2012E PB
China Shenhua	1088 HK	29.85	10.6	2.1	10.3	1.9
China Coal	1898 HK	7.11	7.8	0.9	8.9	0.9
Yanzhou Coal	1171 HK	11.54	5.2	1.1	7.0	1.0
Yitai Coal	3948 HK	43.00	10.4	—	9.1	2.2
Sector Ave.					8.81	1.50

Source: Company, Bloomberg, ABCI Securities estimates

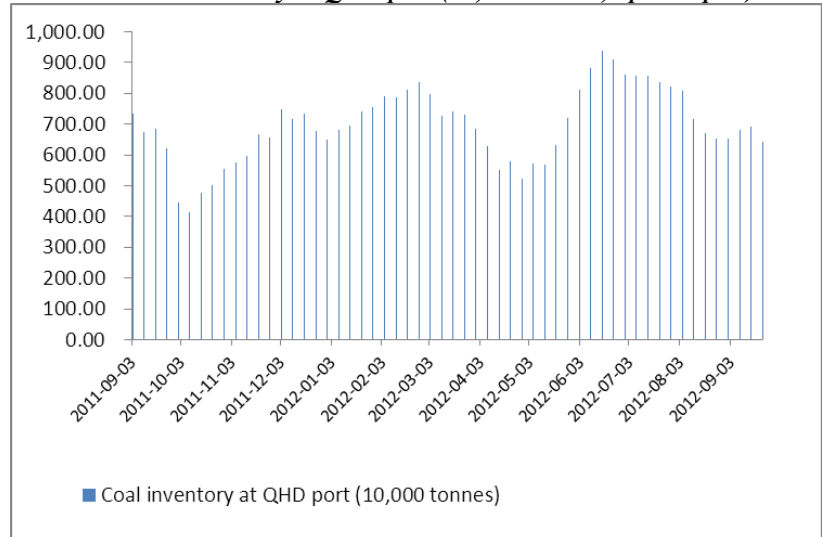


Exhibit 1: Bohai-Rim steam coal price index (5500 kcal/kg, up to Sep 24)



Source: Wind, ABCI Securities

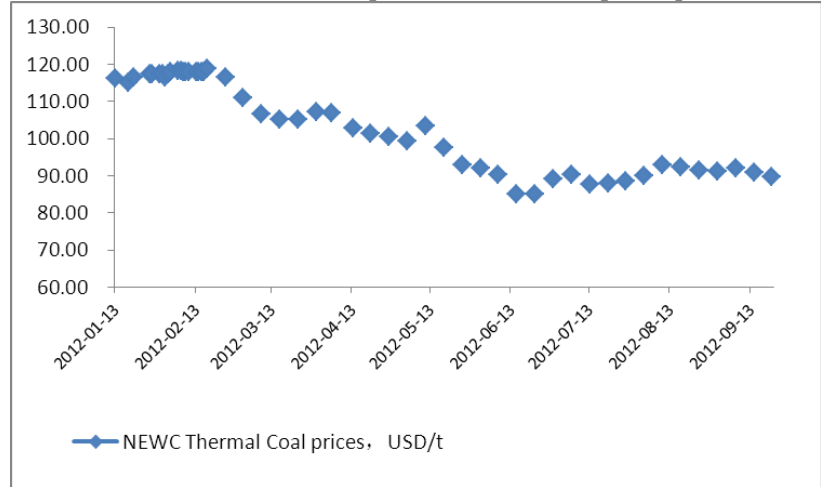
Exhibit 2: Coal inventory at QHD port (10,000 tonnes, up to Sep 24)



Source: Wind, ABCI Securities

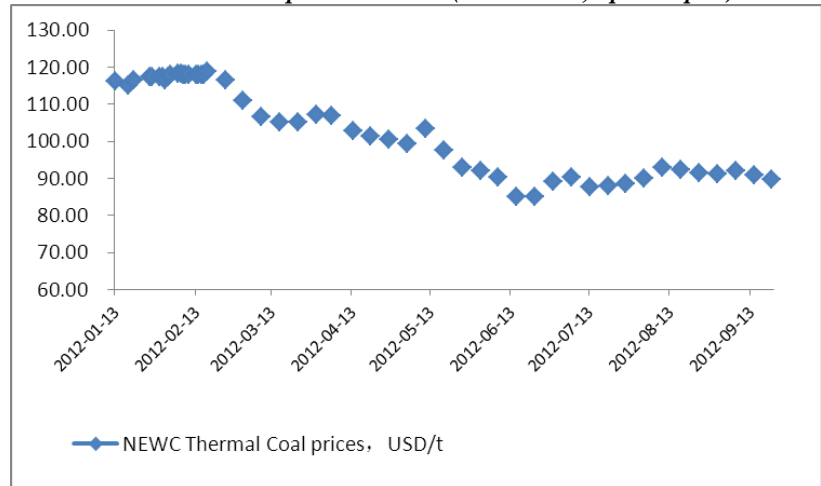


Exhibit 3: NEWC Thermal Coal prices (USD/tonne, up to Sep21)



Source: Wind, ABCI Securities

Exhibit 4: Australia BJ Spot Coal Price (USD/tonne, up to Sep20)



Source: Wind, ABCI Securities



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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 (~15%)

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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