



Rating
Sell

Asia
China

Resources
Metals & Mining

Company
China Coal Energy

Reuters 1898.HK	Bloomberg 1898 HK	Exchange HKG	Ticker 1898
ADR Ticker CCOZY	ISIN US16944G1094		

Date
23 March 2015

Results

Price at 20 Mar 2015 (HKD)	4.13
Price target - 12mth (HKD)	3.30
52-week range (HKD)	5.31 - 3.84
HANG SENG INDEX	24,375

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FY14 results disappointed DBe and consensus; maintaining Sell

China Coal's FY14 results disappointed DBe and consensus; maintaining Sell

China Coal announced its FY14 results on an IFRS basis after market close on 20 Mar 2015. The company's FY14 NPAT was RMB141m, down 96% YoY. The result was lower than both our estimate of RMB941m and Bloomberg consensus of RMB843m, which were based on the company's preliminary announcement in February that its PRC GAAP NPAT declined only 75 to 85%. We believe this results disappointment crystallizes the unfavorable situation of China Coal and triggers a significant downgrade in 2015 consensus estimates amid the recent coal price downward trend. We re-iterate Sell on China Coal.

China Coal's NPAT misses 85% of 2014 DBe and 83% of Bloomberg consensus

China Coal's FY14 NPAT missed our estimate by 85% and Bloomberg consensus by 83%. The details of the results are shown in Figure 1 to Figure 3. The company's PBT declined c. RMB5.8bn YoY. We believe the decline was mainly contributed by (i) RMB700m+ decline due to lower volume of self-produced coal; (ii) RMB3.5bn decline due to per ton profit shrinkage of RMB33/t; (iii) SG&A increase by c. RMB300m largely due to higher AR write-off allowance (c.RMB400m); (iv) RMB1.3bn financial cost increase. There were a mild profit improvement YoY for the coal-chem segment (RMB140m) resulting from new ramp-ups and a profit YoY decline for coal machinery (RMB179m). These two segments' strength and weakness net off each other.

China Coal's disappointing results crystallize China Coal's unfavorable situation

We believe China Coal's disappointing results crystallize several key issues that the group is facing: (i) At the 4Q14 average coal price, China Coal was loss-making. The current QHD benchmark coal price is already RMB35/t below the 4Q14 average. (ii) China Coal's net gearing (from 47% to 67%) and net financial costs (from RMB630m to RMB1,952m) both inflated rapidly in 2014. This should still be the case in 2015. (iii) AR quality and loss-making situation can make investors over-estimate China Coal's book value when it goes to PBx.

Maintaining Sell; major risk: China government to control coal price

We believe the disappointing results will trigger a significant downgrade in the 2015 cons. NPAT estimate, which is still 273% above 2015 DBe. Our PT price of HKD3.3 is derived from a DCF-based SOTP valuation (cost of capital at 8.2% and terminal growth at 2%, which is our multiple for all companies in the sector). Major risk: China government to control coal price.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.2	-13.2	2.2
HANG SENG INDEX	-1.8	5.4	15.1

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (CNYm)	87,291.7	82,316.0	75,821.4	83,588.7	90,411.1
EBITDA (CNYm)	17,527.1	12,038.9	8,708.0	8,237.5	10,079.1
EBIT(CNYm)	12,807	6,879	2,372	1,368	2,962
Reported EPS FD(CNY)	0.67	0.29	0.07	0.02	0.09
Reported NPAT (CNYm)	8,842.2	3,804.6	941.0	241.5	1,195.0

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

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Model updated: 16 December 2014

Running the numbers

Asia

China

Metals & Mining

China Coal Energy

Reuters: 1898.HK

Bloomberg: 1898.HK

Sell

Price (20 Mar 15) HKD 4.13

Target Price HKD 3.30

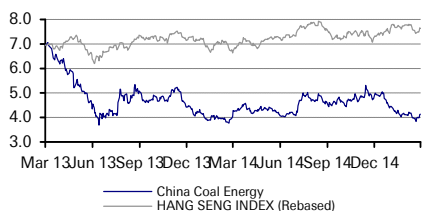
52 Week range HKD 3.84 - 5.31

Market Cap (m) HKDm 54,758
USDm 7,059

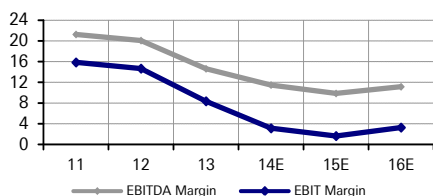
Company Profile

The company mines and markets thermal coal and coking coal. The company also manufactures coal mining equipment and offers coal mine design services.

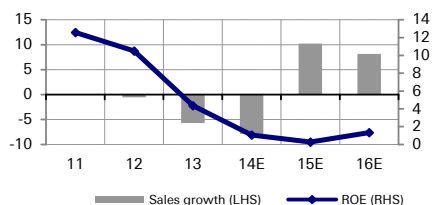
Price Performance



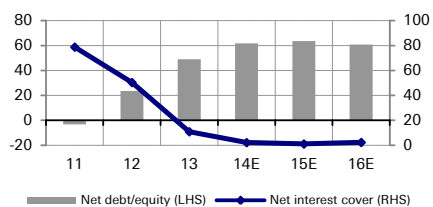
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (CNY)	0.74	0.67	0.29	0.07	0.02	0.09
Reported EPS (CNY)	0.74	0.67	0.29	0.07	0.02	0.09
DPS (CNY)	0.22	0.21	0.08	0.02	0.01	0.00
BVPS (CNY)	6.2	6.5	6.6	6.7	6.7	6.8
Weighted average shares (m)	13,259	13,259	13,259	13,259	13,259	13,259
Average market cap (CNYm)	112,198	86,014	59,593	43,746	43,746	43,746
Enterprise value (CNYm)	114,421	114,083	113,294	111,047	112,864	110,733

Valuation Metrics

P/E (DB) (x)	11.4	9.7	15.7	46.5	181.1	36.6
P/E (Reported) (x)	11.4	9.7	15.7	46.5	181.1	36.6
P/BV (x)	1.13	1.05	0.52	0.49	0.49	0.49
FCF Yield (%)	nm	nm	nm	nm	nm	4.9
Dividend Yield (%)	2.5	3.2	1.8	0.6	0.2	0.0
EV/Sales (x)	1.3	1.3	1.4	1.5	1.4	1.2
EV/EBITDA (x)	6.1	6.5	9.4	12.8	13.7	11.0
EV/EBIT (x)	8.2	8.9	16.5	46.8	82.5	37.4

Income Statement (CNYm)

Sales revenue	87,773	87,292	82,316	75,821	83,589	90,411
Gross profit	18,307	17,303	11,396	6,505	5,926	7,903
EBITDA	18,663	17,527	12,039	8,708	8,237	10,079
Depreciation	4,207	4,269	4,664	5,790	6,324	6,571
Amortisation	533	451	496	546	546	546
EBIT	13,924	12,807	6,879	2,372	1,368	2,962
Net interest income/(expense)	-177	-254	-630	-1,083	-1,265	-1,265
Associates/affiliates	295	236	152	295	304	313
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	14,042	12,789	6,401	1,583	406	2,010
Income tax expense	3,383	3,214	1,781	441	113	559
Minorities	857	733	815	202	52	256
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	9,802	8,842	3,805	941	242	1,195
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	9,802	8,842	3,805	941	242	1,195

Cash Flow (CNYm)

Cash flow from operations	15,240	10,888	6,788	7,665	8,926	8,806
Net Capex	-31,482	-35,350	-30,248	-21,000	-10,675	-6,675
Free cash flow	-16,242	-24,462	-23,460	-13,335	-1,749	2,131
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-2,851	-2,785	-1,073	-265	-68	0
Net inc/(dec) in borrowings	20,276	0	0	0	0	0
Other investing/financing cash flows	-3,220	7,285	-797	-93	-252	-57
Net cash flow	-2,037	-19,963	-25,329	-13,694	-2,069	2,074
Change in working capital	6,120	-2,284	3,373	373	1,814	494

Balance Sheet (CNYm)

Cash and other liquid assets	32,174	22,694	19,437	15,744	13,675	15,749
Tangible fixed assets	60,254	85,556	110,059	126,349	130,700	130,804
Goodwill/intangible assets	31,345	36,134	36,732	35,091	34,545	33,999
Associates/investments	8,857	10,550	12,107	12,402	12,705	13,018
Other assets	27,303	30,764	38,185	37,102	38,980	40,630
Total assets	159,933	185,699	216,520	226,688	230,605	234,200
Interest bearing debt	29,034	46,619	69,963	79,963	79,963	79,963
Other liabilities	34,934	37,649	43,464	42,754	46,446	48,590
Total liabilities	63,968	84,267	113,427	122,717	126,409	128,553
Shareholders' equity	81,745	86,737	87,811	88,487	88,661	89,856
Minorities	14,220	14,694	15,282	15,484	15,535	15,791
Total shareholders' equity	95,965	101,431	103,093	103,971	104,196	105,647
Net debt	-3,139	23,925	50,526	64,219	66,289	64,214

Key Company Metrics

Sales growth (%)	nm	-0.5	-5.7	-7.9	10.2	8.2
DB EPS growth (%)	na	-9.8	-57.0	-75.3	-74.3	394.8
EBITDA Margin (%)	21.3	20.1	14.6	11.5	9.9	11.1
EBIT Margin (%)	15.9	14.7	8.4	3.1	1.6	3.3
Payout ratio (%)	29.1	31.5	28.2	28.2	28.2	0.0
ROE (%)	12.6	10.5	4.4	1.1	0.3	1.3
Capex/sales (%)	35.9	40.5	36.7	27.7	12.8	7.4
Capex/depreciation (x)	6.6	7.5	5.9	3.3	1.6	0.9
Net debt/equity (%)	-3.3	23.6	49.0	61.8	63.6	60.8
Net interest cover (x)	78.8	50.4	10.9	2.2	1.1	2.3

Source: Company data, Deutsche Bank estimates

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China Coal FY14 results summary

Figure 1: China Coal financial and operational summary in 2014

		FY2014	FY2013	YoY	Dbe	% of Dbe	Cons.	% of cons.	Comments
Financials									
Revenue	RMBmn	70,664	82,316	-14%	75,821	93%	71,417	99%	Top-line declined mainly due to (i) decline of sales volume of self-produced coal (ii) decline in coal ASP (iii) decline in revenue of coal mining equipment business
COGS	RMBmn	63,468	70,920	-11%	69,316	92%	63,686	100%	COGS declined mainly due to (i) decline of coal sales volume (ii) reduction of labor cost (iii) reduction from coal sustainable development fund
GP	RMBmn	7,196	11,396	-37%	6,505	111%	7,731	93%	
GPM	%	10%	14%	na	9%	na	11%	na	
SG&A	RMBmn	4,904	4,620	6%	4,246	115%	4,674	105%	China Coal booked an impairment loss on account receivables for c.RMB403mn in FY14.
SG&A % of revenue	%	7%	6%	na	6%	na	7%	na	
OP	RMBmn	2,497	6,879	-64%	2,372	105%	3,057	82%	
Net finance cost	RMBmn	1,952	630	210%	1,083	180%	na	na	Net financial cost increased mainly due to (i) increasing debt financing (ii) interest was expensed rather than capitalized after the assets start to officially operate.
PBT	RMBmn	679	6,401	-89%	1,583	43%	1,651	41%	
Tax	RMBmn	192	1,781	-89%	441	43%	na	na	
NPAT	RMBmn	141	3,805	-96%	941	15%	843	17%	
Other financials									
Effective interest rate	%	3%	1%	na	2%	na	na	na	
Effective tax rate	%	28%	28%	na	28%	na	na	na	
Net gearing ratio	%	67%	47%	na	61%	na	na	na	Gearing ratio increased due to increasing debt financing
Operation									
Coal									
Self-produced vol.	mt	106	115	-8%	111	96%	na	na	
ASP of self-produced coal	RMB/t	367	422	-13%	369	99%	na	na	ASP dropped due to coal market oversupply
Unit cost of self-produced coal	RMB/t	319	342	-7%	330	97%	na	na	Unit cost decreased mainly due to (i) decline of raw material purchasing cost (ii) fees (incl. coal sustainable development fund) reduction, etc

Source: Deutsche Bank, company data, Bloomberg Finance LP





Figure 2: Coal sales volume and ASP

	Coal sales volume						Coal ASP					
	FY14	FY13	YoY	2H14	1H14	HoH	FY14	FY13	YoY	2H14	1H14	HoH
Commercial coal production	114	119	-4%	54	60	-11%						
Total sales volume	157	161	-3%	82	75	9%	379	435	-13%	361	397	-9%
Sales volume of self-produced coal	106.1	115.3	-8%	50.8	55.3	-8%	367	422	-13%	351	382	-8%
-Thermal coal	99.9	110.7	-10%	47.8	52.1	-8%	356	406	-12%	341	370	-8%
-Domestic contract	82.5	69.1	19%	39.6	42.9	-8%	368	425	-13%	351	383	-8%
-Domestic spot	16.9	41.2	-59%	7.9	9.0	-12%	287	373	-23%	269	303	-11%
-Export contract	0.5	0.4	21%	0.3	0.3	8%	545	596	-9%	526	565	-7%
-Export spot												
-Coking coal	6.2	4.6	35%	3.0	3.1	-3%	545	811	-33%	511	578	-12%
-Domestic contract												
-Domestic spot	6.2	4.6	35%	3.0	3.1	-3%	545	811	-33%	511	578	-12%
-Export contract												
-Export spot												
Trading coal volume	46.3	41.2	13%	28.4	17.9	59%	405	473	-14%	380	444	-14%
Import/export and others	4.5	4.5	-1%	2.5	2.0	28%	4	7	-43%	2	6	-59%

Source: Deutsche Bank, company data

Figure 3: Unit production cost analysis

		2014	2013	YoY	1H13	2H13	1H14	2H14	2H14 HoH	2H14 YoY
-Material cost	RMB/t	48	55	-13%	50	60	41	55	34%	-8%
-Cost of external purchase of raw coal	RMB/t	12	11	8%	11	10	14	9	-32%	-7%
-Labour cost	RMB/t	31	29	4%	31	28	30	31	3%	10%
-Depreciation and amortisation	RMB/t	40	37	9%	39	34	39	41	5%	19%
-Maintenance expense	RMB/t	7	10	-25%	9	10	8	7	-6%	-31%
-Coal sustainable development fund	RMB/t	13	19	-28%	19	18	15	12	-20%	-34%
-Others	RMB/t	168	181	-7%	168	193	177	159	-10%	-18%
Total unit cost of self-produced coal	RMB/t	319	342	-7%	328	354	324	314	-3%	-11%

Source: Deutsche Bank, company data



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
China Coal Energy	1898.HK	4.15 (HKD) 20 Mar 15	14,15

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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Historical recommendations and target price: China Coal Energy (1898.HK)
 (as of 3/20/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	09/04/2013:	Hold, Target Price Change HKD6.90	5.	25/09/2013:	Downgrade to Sell, HKD4.00
2.	02/06/2013:	Hold, Target Price Change HKD4.90	6.	18/03/2014:	Sell, Target Price Change HKD3.30
3.	26/06/2013:	Hold, Target Price Change HKD4.50	7.	29/05/2014:	Upgrade to Hold, Target Price Change HKD4.00
4.	29/08/2013:	Hold, Target Price Change HKD4.00	8.	07/11/2014:	Downgrade to Sell, Target Price Change HKD3.30

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

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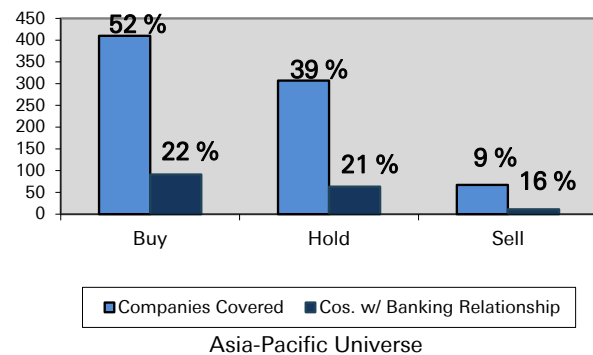
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Equity rating dispersion and banking relationships





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