

Analyst: Kelvin Li

CHINA COAL ENERGY COMPANY LIMITED (中煤能源)

Sector	: Materials
HKSE Code	: 1898
Market Price	: HK\$15.16 (10/04/2008)
HSI	: 24,187.10 (10/04/2008)
H Shares Issued	: 4,106.66 million
H-share Mkt. Cap.	: HK\$62,257.01.8 million
52 weeks Hi/ Lo	: HK\$29.50 / HK\$7.45

Chairman : JING Tianliang

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	FY2007	FY2006	
	RMB million	RMB million	Change
• Turnover	36,428	30,227	+20.5%
• Gross profit	9,298	6,546	+42.0%
• Unrealized gain from China COSCO A-share investment	1,367	-	N/A
• Operating profit	9,101	5,173	+75.9%
• Attributable profit to shareholders	6,020	3,172	+89.8%
	RMB	RMB	
• EPS – basic	0.51	0.39	+30.8%
• DPS – interim	0.08940	-	N/A
• DPS – final	0.06226	-	N/A
• DPS – total	0.15166	-	N/A

- China Coal Energy reported a robust 89.8% y-o-y jump in net profit to RMB6.02 billion for FY2007, thanks to a surge in sales of self-produced coal, better selling prices, and effective cost control. It was also helped by unrealized gain of RMB1.37 billion from its China COSCO A-share holdings.
- Turnover grew 20.5% y-o-y to RMB36.4 billion in FY07, driven by strong coal and coke sales. The rise in cost of sales was held contained at 14.6% y-o-y in FY07, as the rise in cost of materials grew only 2.7% y-o-y during FY07 amid a lower volume in proprietary 3rd-party coal trading and agency sales. As a result, the Group's gross profit rose a solid 42.0% to RMB9.3 billion, while gross profit margin widened to 25.5% in FY07 from 21.7% in FY06.
- The Group's operating profit jumped a sharp 75.9% y-o-y to RMB9.1 billion in FY07, driven by the revaluation gain of the Group's strategic A-share stake in China COSCO (SSE: 601919, HKEx: 1919) and a higher interest income related to the Group's H-share issue in Dec 06. Excluding the non-cash revaluation gain, China Coal's operating profit would have risen by 49.5% y-o-y to RMB7.7 billion.
- EPS for FY07 was RMB0.51, compared with a pre-H-share listing EPS of RMB0.39 a year earlier. A final dividend of RMB0.06226 per share was proposed, bringing the full-year DPS to RMB0.15166.
- As of 31/12/2007, the Group had total debts of RMB9.95 billion (31/12/2006: RMB10.63 billion). With a cash on hand of RMB10.38 billion at the end of FY07, the Group had a net cash of RMB428.7 million as at 31/12/2007, down from a net cash of RMB7.73 billion a year earlier.

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**Business highlights**

- Breakdown of turnover (external revenue) by business segments:

	FY2007		FY2006		Change
	RMB million	%	RMB million	%	
Coal	26,451	72.6%	23,832	78.8%	+11.0%
Coke	4,437	12.2%	2,035	6.7%	+118.1%
Mining machinery	2,993	8.2%	2,346	7.8%	+27.6%
Other operations	2,548	7.0%	2,014	6.7%	+26.5%
Total	36,428	100.0%	30,227	100.0%	+20.5%

- Breakdown of turnover in geographical terms:

	FY2007		FY2006		Change
	RMB million	%	RMB million	%	
Domestic markets	31,460	86.4%	22,937	75.9%	+37.2%
Asia Pacific Markets	4,062	11.2%	6,633	21.9%	-38.8%
Other markets	906	2.5%	656	2.2%	+38.1%
Total	36,428	100.0%	30,227	100.0%	+20.5%

- Breakdown of operating profit by business segments:

	FY2007		FY2006		Change
	RMB million	%	RMB million	%	
Coal	6,734	74.0%	4,620	89.3%	+45.7%
Coke	280	3.1%	77	1.5%	+263.4%
Mining machinery	300	3.3%	214	4.1%	+39.9%
Other operations*	1,841	20.2%	295	5.7%	+525.0%
Inter-segment eliminations	(53)	-0.6%	(33)	-0.6%	+60.9%
Total	9,101	100.0%	5,173	100.0%	+75.9%

Remark: (*) The operating profit of other operations included the unrealized gain from the China COSCO A-share equity holdings, interest income, investment income and government grants & subsidies.

- The Group produced 90.52 million tonnes of **raw coal** in FY07, up 14.5% y-o-y, of which 83.30 million tonnes was self-produced coal, up 25.3% y-o-y. Commercial coal (thermal coal & coking/metallurgical coal) sales fell 3.7% y-o-y to 85.16 million tonnes last year, as the Group continued to adjust its product mix amid efforts in boosting profit margins. For FY07, sale of the self-produced commercial coal jumped 21.3% y-o-y to 69.32 million tonnes, comprising 81.4% (FY06: 64.6%) of the Group's total, while resale of 3rd party coal dropped by 49.4% y-o-y to only 15.84 million tonnes. Unit cost of the Group's self-produced commercial coal was RMB258.54 per tonne, up 6.1% y-o-y. In fact, excluding the sustainable development fund contribution (a special levy charged only in Shanxi province since March 2007, but not in other provinces), the unit cost of self-produced commercial coal would have been up by only about 1% y-o-y. As a result, the segment's gross profit margin improved to 29.5% in FY07 from 23.5% a year earlier.
- Sale of **coke** (bituminous coal) surged 65.5% y-o-y to 3.64 million tonnes in FY07, of which 78% (FY06: 75%) was self-produced. Along with a 23.3% y-o-y rise in average selling prices, the segment's revenue (external sales) rose a robust 118.1% y-o-y to RMB4.4 billion, accounting for 12.2% (FY06: 6.7%) of the Group's total. Gross profit margin for FY07 was 10.7%, up 3.6 percentage points from a year earlier.
- Revenue from **mining equipment** sales (excluding inter-segment revenue) grew 27.6% y-o-y to RMB3.0 billion, comprising 8.2% (FY06: 7.8%) of the Group's total.
- In geographical terms, domestic sales accounted for 86.8% (FY06: 75.9%) of the total in FY07, while exports accounted for 13.2% (FY06: 24.1%), as the Group kept reducing overseas sales on removal of export rebate and strong domestic demand.

Outlook & Prospects

- ***Much higher capex in 2008 to fuel expansion*** Capital expenditure for FY07 totalled RMB7.14 billion, up 112% from FY06. For 2008, the Group plans to raise the capex budget further by 126% to RMB16.16 billion to expand its coal, coking and coal chemical operations. For instance, the Group will accelerate its investment in coal chemical projects, including coal liquefaction or coal-to-methanol production in the Inner Mongolia Erdos Project and the Heilongjiang Project, as well as other greenfield coal mine projects. Besides, it is expected that China Coal would acquire coal reserve resources from its parent company during this year.
- ***Output targets for coal and coke*** China Coal revealed that it plans to produce at least 100 million tonnes of raw coal and 4.5 million tonnes of coke in 2008, representing a y-o-y growth of about 10.5% and 33.5%, respectively.
- ***Higher exposure to the spot market to ride on rising prices*** According to China Coal management, for the long-term coal sales contracts signed so far in 2008, the average selling price saw an 11.78% y-o-y rise. Meanwhile, the Group also revealed that it would raise the spot-market trading portion of its domestic commercial coal sales to 25% of the total, up from 18% in FY06, in order to ride on the robust coal market in the Mainland.
- ***Bottom line growth seen lower due to the drag of COSCO A-share stake*** China Coal record a revaluation gain of RMB1.37 billion last year from its strategic holding of 40 million A shares of China COSCO (SSE: 601919), as the stock ended at RMB42.66 by the end of 2007, up more than 4x from the Group's unit subscription cost of RMB8.48. As of 10/04/2008, China COSCO A share ended at RMB27.12, down more than 36% so far in 2008. If the weak stock market sentiment in the Mainland persists and drags the share-price performance of China COSCO A shares, China Coal would report a revaluation deficit on the equity investment, leading to a deterioration of the Group's bottom line in the first half.
- ***Encouraging results and healthy outlook – Buy*** The FY2007 result of China Coal was encouraging, as it showed that efforts in cost control and better product/market mix have paid off. For 2008, the Group further fine-tunes its sales structure, and we could expect further profitability and efficiency enhancement. The overall outlook is also optimistic, as the Group has geared up its full strength in expanding its business scale, following its H-share listing in 2006 and the A-share issue in Feb 2008. Trading at 18.5x FY08E P/E, China Coal's valuation is lower than rival China Shenhua but it is offering a stronger growth potential. Accordingly, we give the counter a "BUY" recommendation.

Recommendation: BUY



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