

Analyst: Kelvin Li
CHINA COAL ENERGY COMPANY LIMITED (中煤能源)

Sector	: Materials	Chairman	: JING Tianliang
HKSE Code	: 1898		
Market Price	: HK\$17.38 (17/09/2007)		
HSI	: 24,599.34 (17/09/2007)		
H Shares Issued	: 4,106.7 million		
H-share Mkt. Cap.	: HK\$71,373.8 million		
52 weeks Hi/ Lo	: HK\$17.72 / HK\$4.40		

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2007
Interim Results Highlights

	1H2007	1H2006	y-o-y
	RMB million	RMB million	Change
• Turnover	16,716	14,680	+13.9%
• Gross profit	4,377	3,044	+43.8%
• Operating profit	3,959	2,403	+64.8%
• Attributable profit to shareholders	2,649	1,334	+98.5%
	RMB	RMB	
• EPS – basic	0.23	0.17	+35.3%
• Interim DPS	0.0894	-	N/A

- China Coal Energy reported a robust 98.5% y-o-y jump in net profit to RMB2.65 billion for the six months ended 30th June 2007, thanks to a surge in sales of self-produced coal and better selling prices.
- Turnover grew 13.9% y-o-y to RMB16.7 billion in the first half from RMB14.7 billion a year earlier, driven by strong sales in coking coal and coal mining machinery products. The rise in cost of sales was held contained at 6.0% y-o-y in 1H07, as the cost of materials fell 16.9% y-o-y during the first half amid a lower volume in proprietary 3rd-party coal trading and agency sales. As a result, the Group's gross profit rose a solid 43.8% to RMB4.4 billion, while gross profit margin widened to 26.2% in 1H07 from 20.7% in 1H06.
- The Group's operating profit jumped a sharp 64.8% y-o-y to RMB4.0 billion in 1H07, driven by a RMB391.2 million revaluation gain and a 646.3% rise in interest income to RMB266.3 million. In fact, the revaluation gain was related to the Group's strategic stake in China COSCO (HKEx: 1919)'s A-share issue in May, while the cash proceeds from China Coal's H-share IPO in Dec 2006 contributed the jump in interest income during the first half.
- EPS for 1H07 was RMB0.23, compared with a pre-listing EPS of RMB0.17 a year earlier. An interim DPS of RMB0.0894 was proposed, representing a payout ratio of 39% (1H06: Nil).
- As of 30/06/2007, the Group had total debts of RMB11.45 billion (31/12/2006: RMB10.63 billion). Thanks to the proceeds raised from the IPO in late 2006, China Coal Energy remained in a net cash position of RMB2.59 billion at the end of 1H07, compared with a net cash of RMB7.76 billion as at 31/12/2006.

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Business highlights

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

	1H2007		1H2006		y-o-y Change
	RMB million	%	RMB million	%	
Coal	11,990	71.7%	11,761	80.1%	+2.0%
Coke	2,123	12.7%	1,012	6.9%	+109.7%
Mining machinery	1,434	8.6%	972	6.6%	+47.5%
Other operations	1,169	7.0%	934	6.4%	+25.1%
Total	16,716	100.0%	14,680	100.0%	+13.9%

- Breakdown of turnover in geographical terms:

	1H2007		1H2006		y-o-y Change
	RMB million	%	RMB million	%	
Domestic markets	14,172	84.8%	11,766	80.2%	+20.4%
Asia Pacific Markets	2,276	13.6%	2,813	19.2%	-19.1%
Other markets	268	1.6%	101	0.7%	+166.5%
Total	16,716	100.0%	14,680	100.0%	+13.9%

- The Group's **raw coal production** grew 17.8% y-o-y to 43.39 million tonnes in 1H07, of which 39.05 million tonnes was self-produced coal, up 26.0% y-o-y. Commercial coal sold by the Group fell 4.3% y-o-y to 41.67 million tonnes during the first half, as the Group continued to adjust its product mix amid efforts in boosting profit margins. For 1H07, sale of the self-produced coal jumped 29.2% y-o-y to 33.82 million tonnes, making up 81.2% (1H06: 60.1%) of the Group's total, while resale of 3rd party coal dropped by 54.8% y-o-y to 7.85 million tonnes. As a result, the segment's gross profit margin improved by 9.1 percentage points to 30.4% in 1H07. Operating profit from coal production rose 41.0% y-o-y to RMB3.0 billion, accounted for 75.2% (1H06: 87.9%) of the total, while operating margin widened 6.9 ppts to 24.6% in 1H07 from 17.8% a year earlier.
- Sale of **coke** surged 75.0% y-o-y to 1.89 million tonnes in 1H07, of which 71.4% (1H06: 65.7%) was self-produced. Along with a 15% y-o-y rise in selling prices, the segment generated revenue of RMB2.1 billion, up a sharp 109.7% from a year earlier. Gross profit margin strengthened 4.2 ppts to 10.2%. Operating profit of the segment jumped 166.9% y-o-y to RMB91 million, representing 2.3% (1H06: 1.4%) of the total. Meanwhile, revenue from **mining equipment** sales (including inter-segment revenue) grew 48.9% y-o-y, while its operating profit surged 69.6% to RMB135 million and operating margin improved 1.0 ppt to 8.2%.
- In geographical terms, domestic sales accounted for 84.8% of the total in 1H07, up from 80.2% a year earlier, as the Group kept reducing overseas sales after the removal of export rebate.

Outlook & Prospects

- A-share listing in the pipeline** The Group plans to issue no more than 1.525 billion A shares, or 11.51% of the enlarged share capital, to raise about RMB26.6 billion to fund its expansion projects including 5 coal, chemical and power projects. The projects are expected to boost the Group's annual coal mining capacity by 35 million tonnes when in full operation.
- Improved productivity** The Group said its raw coal mining productivity improved substantially during the first half to 25.7 tonnes per work-shift from 16.9 tonnes per worker-shift a year earlier, which also helped contain the unit cost of self-produced coal at RMB233.2 per tonne, compared with RMB243.8 per tonne in 1H06. Efforts in cost control and better productivity should continue to support and strengthen the Group's profit margins and help ease the overall cost pressure when new mines commence operations in the next couple of years.
- Start to deliver** Following the strong price performance so far this year, China Coal is now trading at a rich valuation of 38x FY07E P/E and 25x FY08E P/E. However, we still see it not too demanding, as the Group's growth momentum is expected to pick up steam beyond 2008 and outlook for coal industry in the Mainland should remain strong amid robust demand and rising energy prices. Accordingly, we maintain our "Hold" recommendation on the counter.

Recommendation: HOLD



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