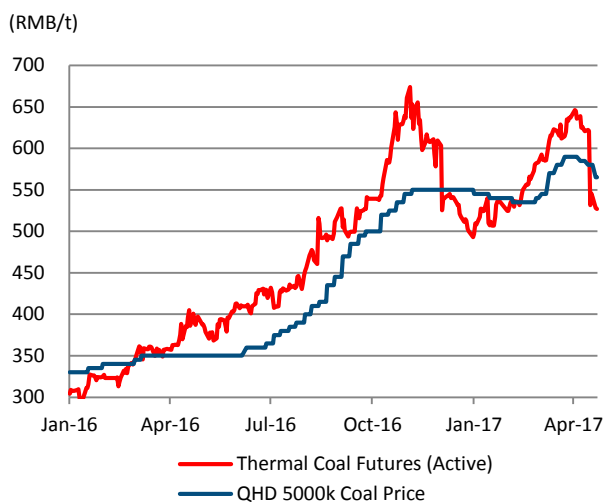


News: NDRC to push coal price down to a reasonable range

News from Cailian Express, NDRC expressed to raise the effective supply of thermal coal, in order to push the coal price back to a reasonable range and relieve the operational difficulties of coal-fired power plants. The NDRC also forecasts the 2Q growth rate of social power consumption to be slightly above 5% YoY, lower than 1Q, due to the uncertainty of economic developments in the 2Q. Meanwhile, it encourages the renewable power producers to participate in the power trading market (so the so-called direct power supply).

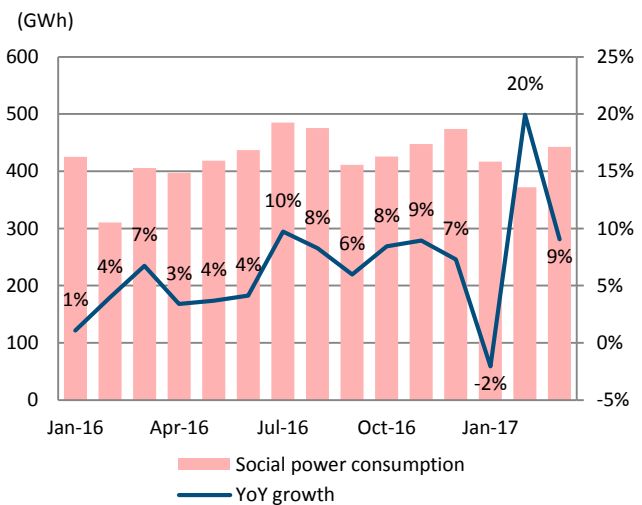
(Source: <http://cailianpress.com/single/156101.html>)

Figure 1: Thermal coal price (2016-Now)



Source: Wind, CSCI Research

Figure 2: Social power consumption (Jan 16 – Mar 17)



Source: Wind, CSCI Research

Our comments

Coal prices likely to start a downtrend. Post the internal meeting hosted by the NDRC on 14 April 2017, major thermal coal producers indeed took actions to cut spot prices. Since then, the QHD 5,000K coal price has gradually dropped by RMB20/t, from RMB585/t on 14 April to RMB565/t on 25 April. Based on the news, we believe the NDRC now fully understands that the IPPs are currently bearing high fuel costs and thus has expressed its intention to raise the coal supply as a soft administration order to the coal producers. In our view, this would initiate a downtrend in the coal price, given (1) social power consumption is expected to drop in the second quarter; (2) NDRC needs to encourage IPPs to participate in direct power supply ("DPS") by implementing the power market reform.

We see first support-level of coal prices at RMB535/t. At the time when the IPPs were being encouraged to participate in direct power supply by voluntarily cutting tariffs, the government has also been working hard to reduce the coal capacity and set a target to cut 150mn tonnes in 2017. Thus, we think the first support level for thermal coal is RMB535/t, which is the benchmark price for seaborne thermal coal for the long-term contracts between coal producers and IPPs.

Declining coal prices to weigh on coal sector valuation. We believe the upcoming downtrend in coal prices will weigh on the valuations of coal producers. Instead, it could be preliminary to assess the benefit of declining coal prices for IPPs, in our view. Assuming the declining fuel costs will gradually price in IPPs' profits in the 2Q and 3Q, the IPPs will barely make any profits in the 1H, after adding back the 1Q loss.

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Figure 3: Stocks related

Market consensus Name	Code	MKT CAP HKD mn	CP HKD	EPS		P/E (x)		P/BVPS (x)		Dividend yield (%)	
				2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E
Coal											
Shenhua	1088 HK	419,639	18.12	1.57	1.49	10.2	10.7	1.0	1.0	3.6	3.6
China Coal	1898 HK	75,703	3.85	0.32	0.30	10.8	11.5	0.5	0.5	2.6	2.3
Yitai	3948 HK	25,986	7.37	0.76	0.77	8.6	8.5	0.8	0.7	3.0	2.8
Yan Coal	1171 HK	52,545	6.9	0.82	0.67	7.4	9.1	0.7	0.7	3.4	2.8
						9.3	10.0	0.8	0.7	3.2	2.9
Power Plant											
CR Power	836 HK	66,865	13.90	1.35	1.51	10.3	9.2	0.9	0.9	6.0	6.2
Datang Int'l	991 HK	60,506	2.27	0.19	0.25	10.5	8.0	0.6	0.6	1.2	5.2
Huaneng Power	902 HK	116,983	5.27	0.32	0.42	14.7	11.2	0.8	0.8	3.6	4.7
China Power	2380 HK	21,330	2.90	0.27	0.30	9.5	8.6	0.7	0.6	4.7	5.5
Huadian Power	1071 HK	53,439	3.24	0.24	0.33	11.7	8.8	0.6	0.6	3.1	4.3
						11.4	9.1	0.7	0.7	3.7	5.2

Source: Bloomberg, CSCI Research

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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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