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BULLISH

⊙ Action

This week, QHD spot prices dropped by 0.6% to RMB775/t and Shanxi ex-mine was unchanged at RMB570/t. Australia's price at Newcastle rose by 1.1% w-w, thus, QHD price of Datong 5,800kcal/t is now at a 4.3% discount to Australian prices. QHD inventory fell 1.0% w-w to 6.98mnt. On a y-y basis, QHD spot price dropped by 3.7%. BUY Shenhua.

⚡ Catalyst

Winter restocking; lapse of power rationing to high energy-insensitive industries; demand growth, tight supply; and high international coal prices driving spot prices.

⚓ Anchor themes

Spot price is subject to correction on lower seasonal demand from Feb. Despite short-term price control, non-key contract price may be revised up gradually when CPI inflation cooling off.

Stocks for action

Positive on coal due to winter re-stocking, tight supply and high international coal prices driving up spot prices. Cautious on power given rising interest rates, high inflation and stiff coal prices.

Stock	Rating	Local price (10 Jan)	Price target
Shenhua (1088 HK)	BUY	33.5	44.60
China Resources Power (836 HK)	BUY	13.26	18.90
Huaneng Power (902 HK)	BUY	4.14	5.30
Datang Power (991 HK)	NEUTRAL	2.76	3.10
Huadian Power* (1071 HK)	NEUTRAL	1.52	1.80
China Power Int'l (2380 HK)	NEUTRAL	1.66	1.70

*Price target under review

QHD price -0.6% and inventory -1.0%**① Spot coal price: QHD down 0.6% w-w, Newcastle up 1.1% w-w**

QHD spot thermal coal price (FOB, Shanxi premium blend 5,500 kcal/kg) dropped by 0.6% w-w to RMB775/t (-3.7% y-y) as of 10 Jan. This implies the spot-to-contract price premium was 36%. Shanxi ex-mine price stayed flat w-w at RMB570/t (+9.6% y-y). While Newcastle price rose by 1.1% w-w to US\$129.9/t (+35.9% y-y) as of 31 Dec, this week's QHD price (Datong 5,800kcal/t) is at 3.6% discount to Newcastle price (2% discount last week).

② Inventory: QHD down 1.0% w-w

QHD coal inventory dropped by 1.0% w-w to 6.98mnt as of 10 Jan 2011 (avg. level: 5.09mn tonnes since 2002). October national coal inventory was 210.5mnt (+ 14% y-y and +1% m-m). Coal inventory at direct supply power plant was 17 days as at 27 Dec 10 (+0.6 days w-w), compared to average of 15 days since July 07.

③ Inner Mongolia to add 53mnt capacity in 2011

According to Xinhua news on 6 January, Inner Mongolia plans to launch new coal projects, including eight large ones with coal output capacity of 53mnt in 2011.

④ Stay positive on coal despite short-term headwind; BUY Shenhua on weakness

We believe NDRC 2011 key contract price control is short-term negative to the coal sector. However, we doubt the effectiveness of the price cap, given: 1) potential price control only applies to key contract sales to IPPs; 2) coal companies will increase spot proportion sales; 3) contract fulfilment rates will be lowered; and 4) coal companies might adjust customer base from IPP to other industries with no price control. Still, we lower our 2011F contract price increase estimate to 5% (from 8%), expecting contact prices to stay flat in 1Q11F and gradually rise to 8% at end-2011F when contracts are renegotiated or a customer base is changed. However, we expect Shenhua's ASP and earnings to drop merely by 2% and 4%, respectively, as we believe higher spot sales will offset the impact from lower contract prices. We stay positive on China's coal sector due to sustainable demand growth and tight supply. We believe Shenhua's 12.4% share price correction since 11 November is overdone and would buy on weakness.

Analysts

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See the important disclosures and analyst certifications on pages 14 to 17.**

Part I: Weekly coal price update

I.I Nomura's China thermal coal price forecasts

Exhibit 1. Nomura's China thermal coal price forecasts

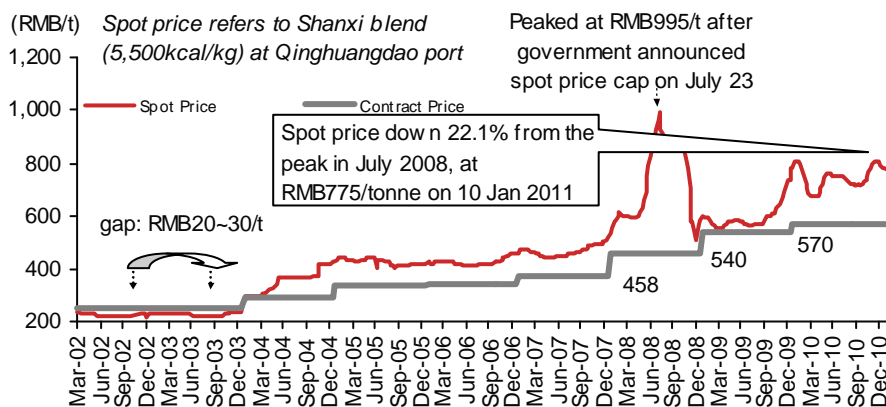
(RMB/tonne)	2008	2009	2010	2011F
Spot price	727	595	745	767
<i>y-y chg. (%)</i>		-18	25%	3
Contract price	458	540	570	599
<i>y-y chg. (%)</i>		18	6	5

Note: Coal prices refer to Shanxi blend (5,500kcal/kg) FOB price at Qinhuangdao port

Source: Company data, Nomura estimates

I.II Domestic thermal coal price update

Exhibit 2. QHD spot versus contract coal prices



QHD thermal coal spot price dropped by 0.6% w-w to RMB775/tonne as of 10 Jan 2011; down 22.1% from the peak of RMB995/tonne in July 2008

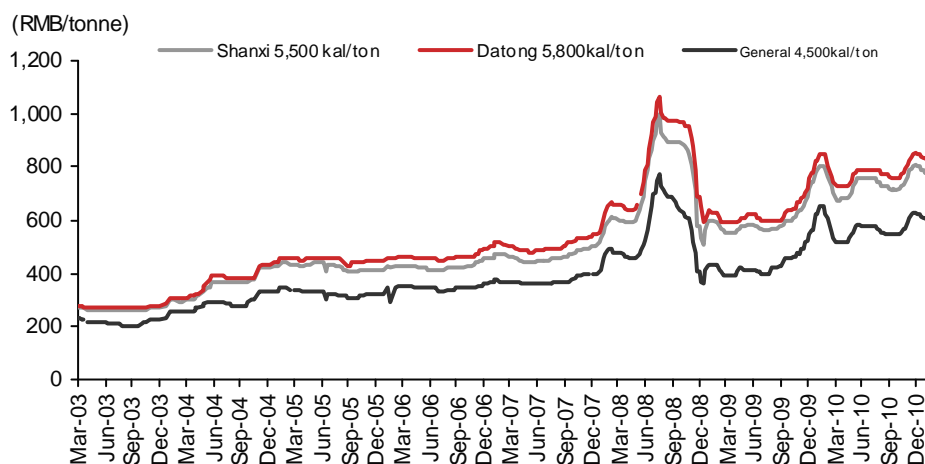
Source: CCTD, Nomura research

Exhibit 3. QHD FOB spot thermal coal price performance

(RMB/tonne)	Datong	Shanxi	General
Date	5,800 kcal/kg	5,500 kcal/kg	4,500 kcal/kg
3-Jan-11	830	780	605
10-Jan-11	825	775	600
w-w change (%)	(0.6)	(0.6)	(0.8)
11-Jan-10	845	805	650
10-Jan-11	825	775	600
y-y change (%)	(2.4)	(3.7)	(7.7)
21-Jul-08	1,065	995	771
10-Jan-11	825	775	600
change from peak (%)	(22.5)	(22.1)	(22.1)
(US\$/tonne)			
10-Jan-11	125.2	117.6	91.0

Note: Shanxi 5,500 kcal/kg is the benchmark Source: CCTD, Nomura research

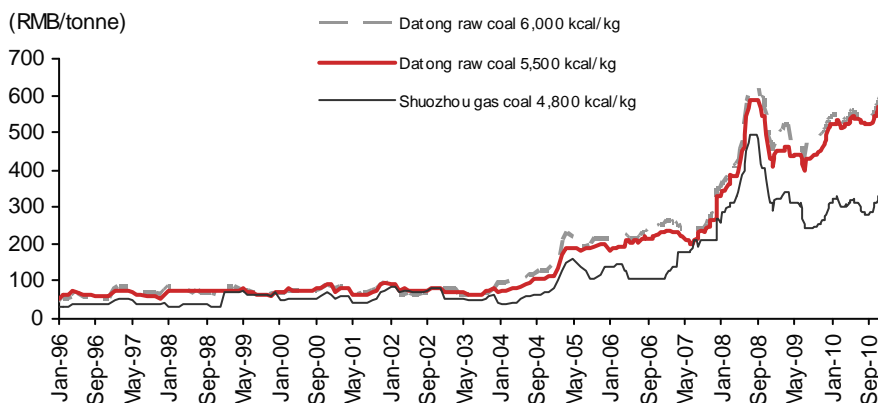
Exhibit 4. QHD FOB spot thermal coal prices



Source: CCTD, Nomura research

Exhibit 5. Shanxi ex-mine spot thermal coal prices

Shanxi ex-mine thermal coal was flat w-w at RMB570/tonne



Source: SXCOAL, Nomura research

Exhibit 6. Shanxi ex-mine spot thermal coal prices

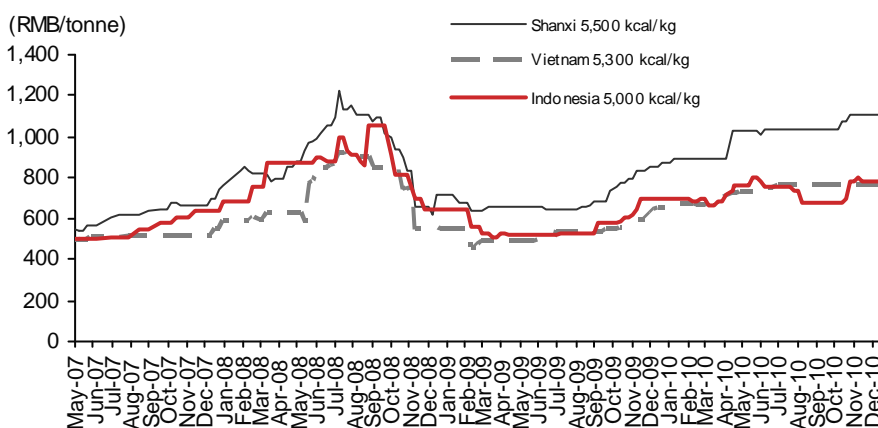
(RMB/tonne)	Datong	Shanxi	Shuozhou
Date	6,000	5,500	4,800
3-Jan-11	600	570	340
10-Jan-11	600	570	340
w-w change (%)	-	-	-
11-Jan-10	545	520	315
10-Jan-11	600	570	340
y-y change (%)	10.1	9.6	7.9
20-Jul-08	620	585	495
10-Jan-11	600	570	340
change from peak (%)	(3.2)	(2.6)	(31.3)

Source: China Coal Resources, Nomura International (Hong Kong) Ltd

Note: Datong ex-mine price adjusted to include VAT from 27 July 2009

Source: SXCOAL, Nomura research

Exhibit 7. Guangzhou port spot thermal coal prices



Source: SXCOAL, Nomura research

Exhibit 8. Qinhuangdao FOB spot thermal coal price details

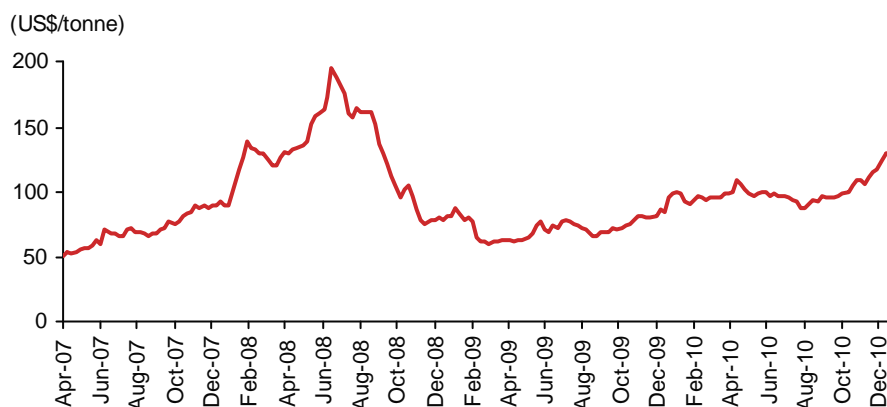
(RMB/tonne)	Datong 5,800 kcal/tonne			Shanxi 5,500 kcal/tonne			General 4,500 kcal/tonne		
	Low	High	Average	Low	High	Average	Low	High	Average
Date									
4-Jan-10	810	840	825	780	790	785	620	630	625
11-Jan-10	840	850	845	800	810	805	640	660	650
18-Jan-10	840	850	845	800	810	805	640	660	650
25-Jan-10	840	850	845	800	810	805	640	660	650
1-Feb-10	840	850	845	790	800	795	620	630	625
8-Feb-10	800	810	805	760	770	765	600	610	605
22-Feb-10	760	770	765	720	730	725	550	560	555
1-Mar-10	740	750	745	700	710	705	530	540	535
8-Mar-10	730	740	735	680	690	685	510	520	515
15-Mar-10	720	730	725	670	680	675	510	520	515
22-Mar-10	720	730	725	670	680	675	510	520	515
29-Mar-10	725	735	730	675	685	680	515	525	520
6-Apr-10	725	735	730	675	685	680	515	525	520
12-Apr-10	725	735	730	675	685	680	515	525	520
19-Apr-10	730	740	735	685	695	690	525	535	530
26-Apr-10	745	755	750	700	710	705	540	550	545
4-May-10	765	775	770	720	730	725	550	560	555
10-May-10	775	785	780	740	750	745	570	580	575
17-May-10	785	795	790	755	765	760	580	590	585
24-May-10	785	795	790	755	765	760	580	590	585
31-May-10	785	795	790	755	765	760	580	590	585
7-Jun-10	780	790	785	750	760	755	575	585	580
17-Jun-10	780	790	785	750	760	755	575	585	580
21-Jun-10	780	790	785	750	760	755	575	585	580
28-Jun-10	780	790	785	750	760	755	575	585	580
5-Jul-10	780	790	785	750	760	755	570	580	575
12-Jul-10	780	790	785	750	760	755	575	585	580
19-Jul-10	780	790	785	750	760	755	575	585	580
26-Jul-10	780	790	785	740	750	745	565	575	570
2-Aug-10	780	790	785	735	745	740	560	570	565
9-Aug-10	770	780	775	725	735	730	550	560	555
16-Aug-10	770	780	775	725	735	730	550	560	555
23-Aug-10	765	775	770	720	730	725	545	555	550
27-Aug-10	765	775	770	720	730	725	545	555	550
3-Sep-10	760	770	765	715	725	720	540	550	545
8-Sep-10	755	765	760	710	720	715	540	550	545
15-Sep-10	755	765	760	710	720	715	540	550	545
20-Sep-10	755	765	760	715	725	720	540	550	545
27-Sep-10	755	765	760	710	720	715	540	550	545
8-Oct-10	755	765	760	715	725	720	540	550	545
13-Oct-10	765	775	770	725	735	730	550	560	555
20-Oct-10	775	790	783	730	745	738	560	575	568
25-Oct-10	785	800	793	735	755	745	565	580	573
1-Nov-10	805	820	813	755	775	765	580	600	590
8-Nov-10	820	830	825	775	795	785	600	615	608
15-Nov-10	830	845	838	790	805	798	615	625	620
22-Nov-10	840	855	848	795	815	805	620	635	628
29-Nov-10	845	860	853	800	815	808	625	640	633
6-Dec-10	840	855	848	795	810	803	615	630	623
13-Dec-10	840	850	845	795	810	803	615	630	623
20-Dec-10	835	845	840	785	795	790	610	620	615
27-Dec-10	830	840	835	780	790	785	605	615	610
3-Jan-11	825	835	830	775	785	780	600	610	605
10-Jan-11	820	830	825	770	780	775	595	605	600
w-w change (%)									
4-Jan-10	-	-	-	1.3	-	0.6	1.6	-	0.8
11-Jan-10	3.7	1.2	2.4	2.6	2.5	2.5	3.2	4.8	4.0
18-Jan-10	-	-	-	-	-	-	-	-	-
25-Jan-10	-	-	-	-	-	-	-	-	-
1-Feb-10	-	-	-	(1.3)	(1.2)	(1.2)	(3.1)	(4.5)	(3.8)
8-Feb-10	(4.8)	(4.7)	(4.7)	(3.8)	(3.8)	(3.8)	(3.2)	(3.2)	(3.2)
22-Feb-10	(5.0)	(4.9)	(5.0)	(5.3)	(5.2)	(5.2)	(8.3)	(8.2)	(8.3)
1-Mar-10	(2.6)	(2.6)	(2.6)	(2.8)	(2.7)	(2.8)	(3.6)	(3.6)	(3.6)
8-Mar-10	(1.4)	(1.3)	(1.3)	(2.9)	(2.8)	(2.8)	(3.8)	(3.7)	(3.7)
15-Mar-10	(1.4)	(1.4)	(1.4)	(1.5)	(1.4)	(1.5)	-	-	-
22-Mar-10	-	-	-	-	-	-	-	-	-
29-Mar-10	0.7	0.7	0.7	0.7	0.7	0.7	1.0	1.0	1.0
6-Apr-10	-	-	-	-	-	-	-	-	-
12-Apr-10	-	-	-	-	-	-	-	-	-
19-Apr-10	0.7	0.7	0.7	1.5	1.5	1.5	1.9	1.9	1.9
26-Apr-10	2.1	2.0	2.0	2.2	2.2	2.2	2.9	2.8	2.8
4-May-10	2.7	2.6	2.7	2.9	2.8	2.8	1.9	1.8	1.8
10-May-10	1.3	1.3	1.3	2.8	2.7	2.8	3.6	3.6	3.6
17-May-10	1.3	1.3	1.3	2.0	2.0	2.0	1.8	1.7	1.7
24-May-10	-	-	-	-	-	-	-	-	-
31-May-10	-	-	-	-	-	-	-	-	-
7-Jun-10	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)	(0.7)	(0.9)	(0.8)	(0.9)
17-Jun-10	-	-	-	-	-	-	-	-	-
21-Jun-10	-	-	-	-	-	-	-	-	-
28-Jun-10	-	-	-	-	-	-	-	-	-
5-Jul-10	-	-	-	-	-	-	(0.9)	(0.9)	(0.9)
12-Jul-10	-	-	-	-	-	-	0.9	0.9	0.9
19-Jul-10	-	-	-	-	-	-	-	-	-
26-Jul-10	-	-	-	(1.3)	(1.3)	(1.3)	(1.7)	(1.7)	(1.7)
2-Aug-10	-	-	-	(0.7)	(0.7)	(0.7)	(0.9)	(0.9)	(0.9)
9-Aug-10	(1.3)	(1.3)	(1.3)	(1.4)	(1.3)	(1.4)	(1.8)	(1.8)	(1.8)
16-Aug-10	-	-	-	-	-	-	-	-	-
23-Aug-10	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)	(0.7)	(0.9)	(0.9)	(0.9)
27-Aug-10	-	-	-	-	-	-	-	-	-
3-Sep-10	(0.7)	(0.6)	(0.6)	(0.7)	(0.7)	(0.7)	(0.9)	(0.9)	(0.9)
8-Sep-10	(0.7)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)	-	-	-
15-Sep-10	-	-	-	-	-	-	-	-	-
20-Sep-10	-	-	-	0.7	0.7	0.7	-	-	-
27-Sep-10	-	-	-	(0.7)	(0.7)	(0.7)	-	-	-
8-Oct-10	-	-	-	0.7	0.7	0.7	-	-	-
13-Oct-10	1.3	1.3	1.3	1.4	1.4	1.4	1.9	1.8	1.8
20-Oct-10	1.3	1.9	1.6	0.7	1.4	1.0	1.8	2.7	2.3
25-Oct-10	1.3	1.3	1.3	0.7	1.3	1.0	0.9	0.9	0.9
1-Nov-10	2.5	2.5	2.5	2.7	2.6	2.7	2.7	3.4	3.1
8-Nov-10	1.9	1.2	1.5	2.6	2.6	2.6	3.4	2.5	3.0
15-Nov-10	1.2	1.8	1.5	1.9	1.3	1.6	2.5	1.6	2.1
22-Nov-10	1.2	1.2	1.2	0.6	1.2	0.9	0.8	1.6	1.2
29-Nov-10	0.6	0.6	0.6	0.6	-	0.3	0.8	0.8	0.8
6-Dec-10	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(1.6)	(1.6)	(1.6)
13-Dec-10	-	(0.6)	(0.3)	-	-	-	-	-	-
20-Dec-10	(0.6)	(0.6)	(0.6)	(1.3)	(1.9)	(1.6)	(0.8)	(1.6)	(1.2)
27-Dec-10	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.8)	(0.8)	(0.8)
3-Jan-11	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.8)	(0.8)	(0.8)
10-Jan-11	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.8)	(0.8)	(0.8)

Source: CCTD, Nomura International (Hong Kong) Ltd

Source: CCTD, Nomura research

I.III Global thermal coal price update

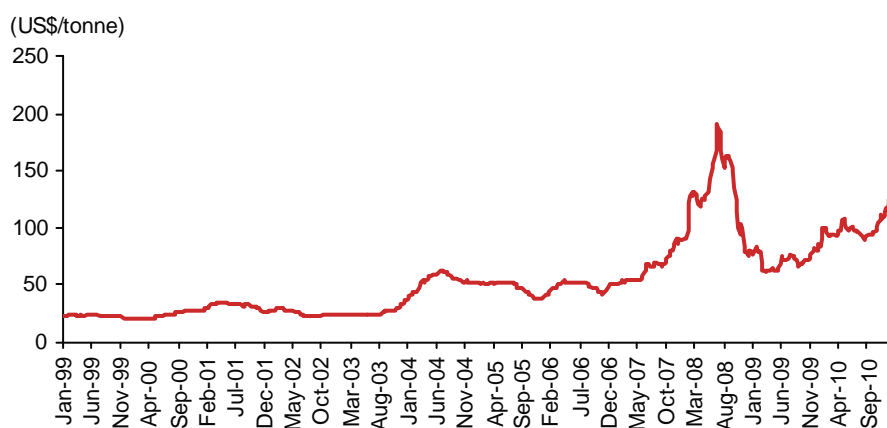
Exhibit 9. GlobalCOAL NEWC Index



Newcastle thermal coal spot price increased 1.1% w-w to US\$129.9/tonne as of 7 Jan 2011; down 33% from the peak in July 2008

Source: SXCOAL, Nomura research

Exhibit 10. Australian BJ spot thermal coal prices

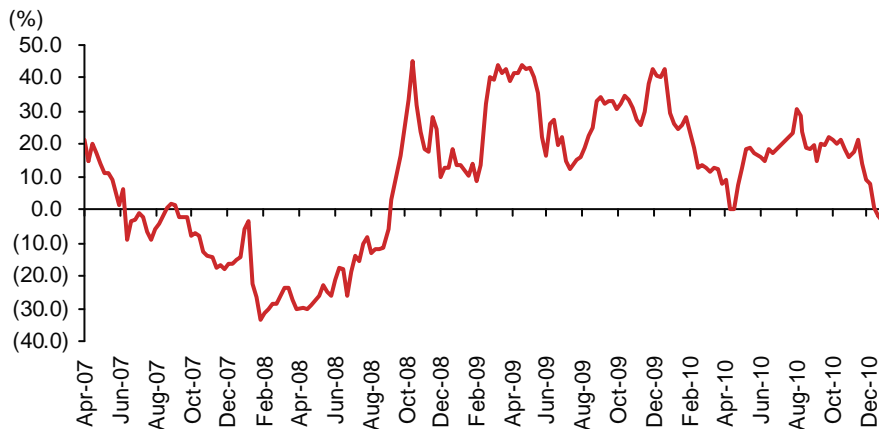


Source: SXCOAL, Nomura research

Exhibit 11. Australian thermal coal price performance

(US\$/tonne)	Global Coal		Australian	
Date	NEWC	Date	BJ	
31-Dec-10	128.5	23-Dec-10	119.2	
7-Jan-11	129.9	30-Dec-10	124.8	
w-w change (%)	1.1		4.7	
8-Jan-10	95.6	31-Dec-09	83.3	
7-Jan-11	129.9	30-Dec-10	124.8	
y-y change (%)	35.9		49.8	
4-Jul-08	194.8	3-Jul-08	191.0	
7-Jan-11	129.9	30-Dec-10	124.8	
Change from peak (%)	(33.3)		(34.7)	

Source: SXCOAL, Nomura research

Exhibit 12. QHD Datong premium to GlobalCOAL NEWC

QHD-Newcastle spot coal price discount was 3.6% as of 10 Jan 2011, changed from 2.0% premium last week

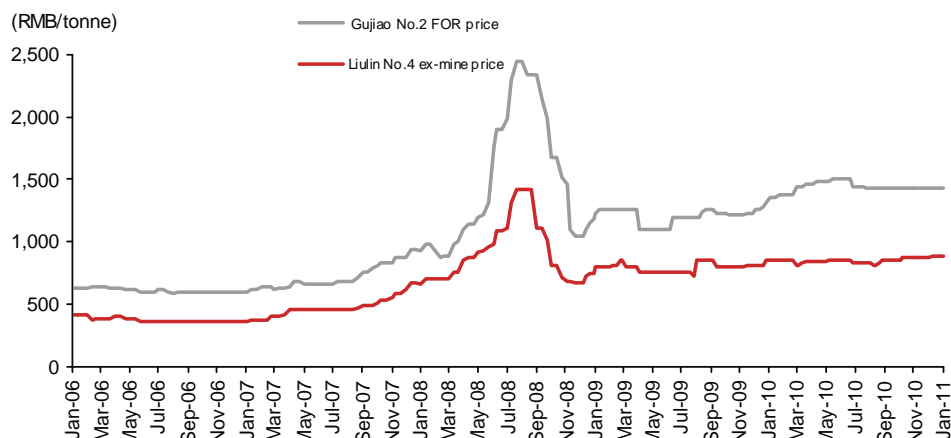
Source: SXCOAL, CCTD, Nomura research

Exhibit 13. QHD Datong premium to Australian BJ spot thermal coal prices

Source: SXCOAL, CCTD, Nomura research

I.IV Coking coal price update

Exhibit 14. Shanxi coking coal prices



Shanxi coking coal mine-mouth spot price stayed flat w-w at RMB880/tonne and was down 38% from the peak of RMB1,420/tonne in July 2008

Source: China Coal Resource, Nomura research

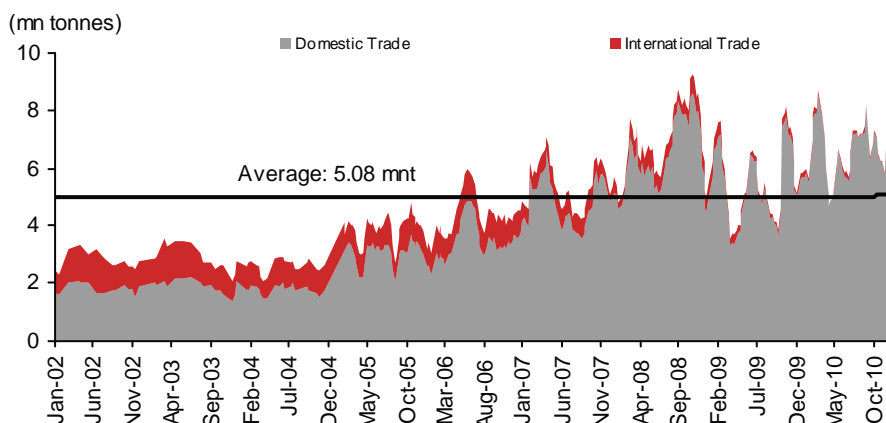
Exhibit 15. Shanxi coking coal price performance

(RMB/tonne)	Liulin No.4 (ex-mine)	Gujiao No.2 (FOB)
Date		
3-Jan-11	880	1,430
10-Jan-11	880	1,430
w-w change (%)	-	-
11-Jan-10	850	1,350
10-Jan-11	880	1,430
y-y change (%)	3.5	5.9
30-Jul-08	1,420	2,445
10-Jan-11	880	1,430
change from peak (%)	(38.0)	(41.5)

Source: China Coal Resource, Nomura research

Part II: Weekly coal inventory update

Exhibit 16. QHD weekly coal inventory



QHD coal inventory decreased 1.0% w-w to 6.98mn tonnes.

Source: CCTD, Nomura research

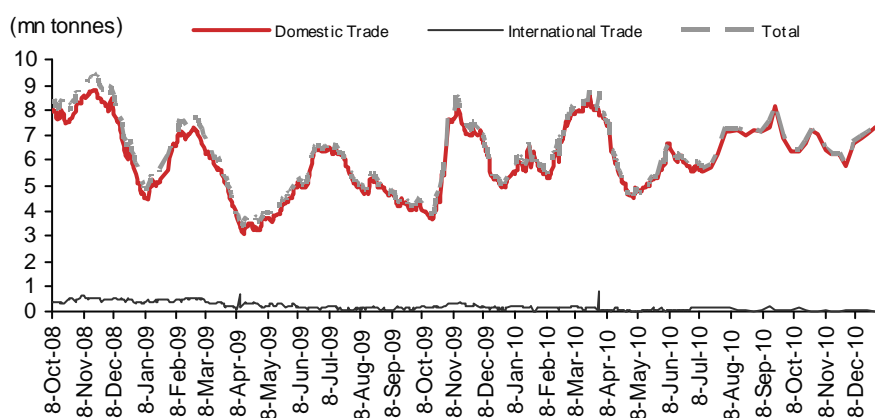
Exhibit 17. QHD weekly coal inventory

(mn tonnes)

Date	Domestic	International	Total
4-Jan-11	7.01	0.04	7.05
10-Jan-11	6.95	0.03	6.98
w-w change (%)	(0.8)	(25.0)	(1.0)
10-Jan-10	5.62	0.22	5.84
10-Jan-11	6.95	0.03	6.98
y-y change (%)	23.7	(87.6)	19.6
23-Nov-08	8.61	0.65	9.26
10-Jan-11	6.95	0.03	6.98
change from peak (%)	(19.2)	(95.9)	(24.6)
11-Apr-09	3.35	0.18	3.53
10-Jan-11	6.95	0.03	6.98
change from recent low (%)	107.6	(84.6)	98.0

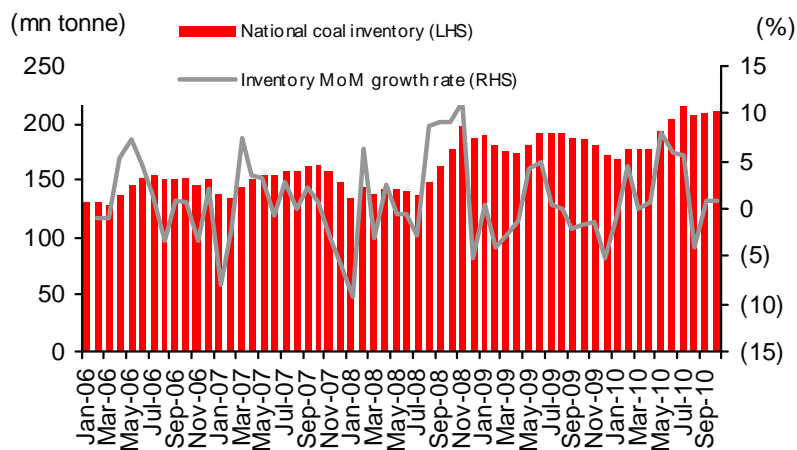
Source: CCTD, Nomura research

Exhibit 18. QHD daily coal inventory



Source: SXCOAL, Nomura research

Exhibit 19. National coal inventory

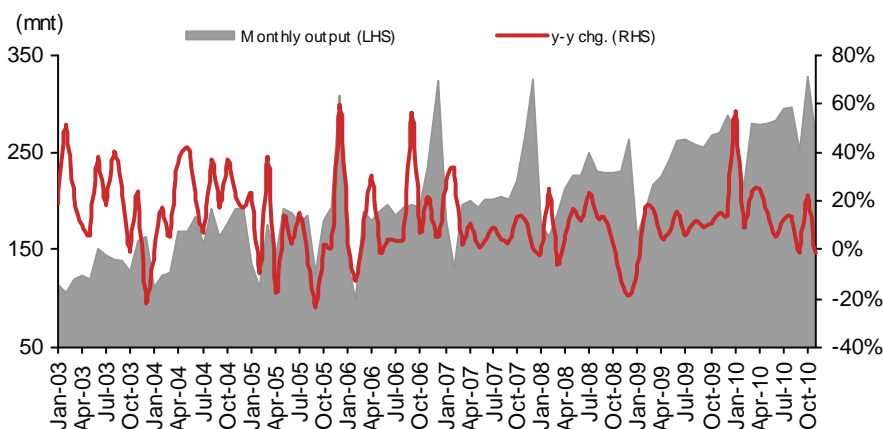


National coal inventory was
210.5mnt at Oct 2010
up 14% y-y and 1.0% m-m

Source: CCTD, Nomura research

Part III: Monthly output update on coal and downstream industries

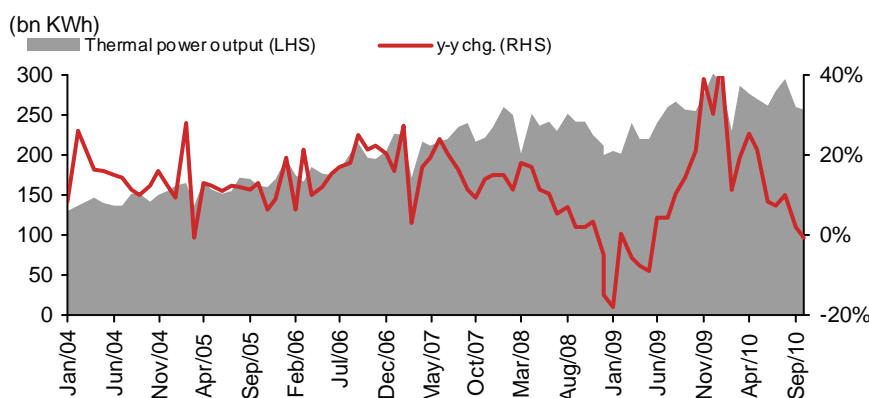
Exhibit 20. China: monthly crude coal output



Note: The monthly crude coal output data is updated based on availability. Sep 2010 data is not available yet.
Source: CCTD, Nomura research

China crude coal output was 265mnt in Nov 2010, down 1.7% y-y

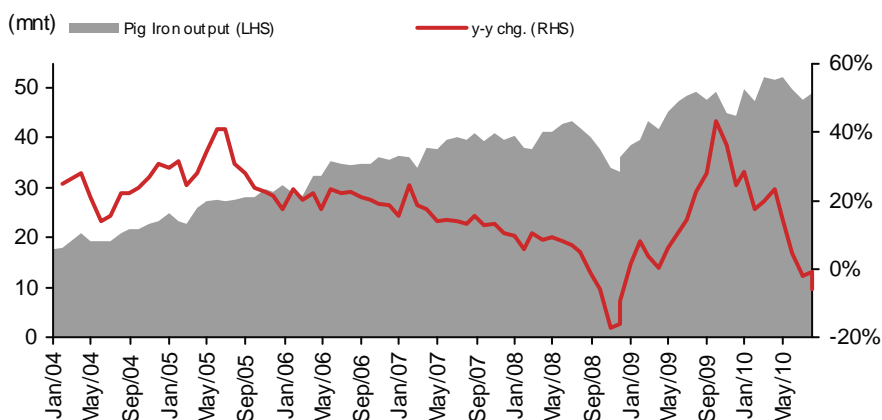
Exhibit 21. China: monthly thermal power output



Note: the monthly thermal power output data is updated based on availability. Sep 2010 data is not available yet.
Source: CCTD, Nomura estimates

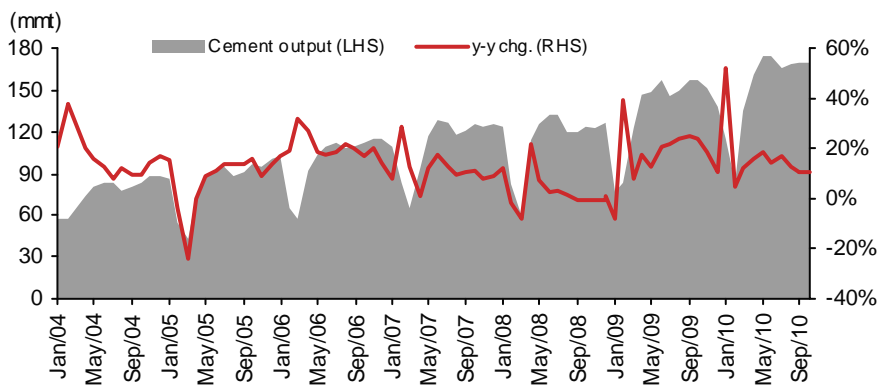
Thermal power output was 256.3bn KWh in Oct 2010 (latest available), down 1% y-y

Exhibit 22. China: monthly pig iron output



Note: Monthly pig iron output data is updated upon availability. Sep 2010 data is not available yet.
Source: CEIC, Nomura research

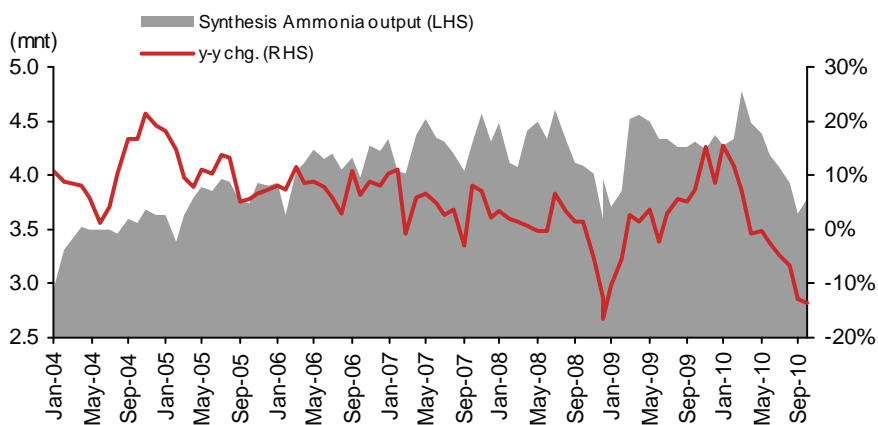
China's pig iron output was 47mnt in Oct 2010 (latest available), down 7% y-y

Exhibit 23. China: monthly cement output

China's cement output was 170mnt in Oct 2010 (latest available), up 11% y-y

Note: Monthly cement output data is updated upon availability. Sep 2010 data is not available yet.

Source: CEIC, Nomura research

Exhibit 24. China: monthly synthesis ammonia output

China's synthesis ammonia output was 3.8mnt in Oct 2010 (latest available), down 14% y-y

Note: Monthly synthesis ammonia output data is updated upon availability. Sep 2010 data is not available yet.

Source: CEIC, Nomura research

Part IV: Valuation and risks for coal and IPPs under coverage

Exhibit 25. Valuation methodologies and investment risks

Company	Ticker	Valuation methodology	Risks
China Shenhua	1088 HK	Our sum-of-the-parts-based price target of HK\$44.6 is equal to 13.5x FY10F P/E, in line with its peers' and looks undemanding against a higher ROE.	1) higher-than-expected coal prices; 2) weaker-than-expected recovery in China's economy; 3) higher-than-expected cost hikes; 4) higher coal imports boosted by a strengthening RMB; and 5) overall market weakness given the stock's high correlation to the market index (Hang Seng Index).
			Risks for 991 HK, 902 HK, 1071 HK, 2380 HK and 836 HK
Datang Intl	991 HK	DCF (with a WACC of 9% and a 2% terminal growth rate for 2023 and thereafter), plus a 15% discount due to low market visibility.	Profit margins of Chinese independent power producers are not protected by contracts or regulatory regimes. Without any automatic pass-through mechanism, major cost items (eg, fuel cost) are subject to market price fluctuations. Competition and any macroeconomic downturn could also have a negative impact on generation output and plant utilisation over time.
Huaneng Power Intl	902 HK	DCF (with a WACC of 9% and a 2% terminal growth rate for 2023 and thereafter), plus a 15% discount due to low market visibility.	
Huadian Power Intl	1071 HK	DCF (with a WACC of 9% and a 2% terminal growth rate for 2023 and thereafter), plus a 15% discount due to low market visibility and a 25% discount as risk premium for its smaller market capitalisation.	
China Power Intl	2380 HK	DCF (with a WACC of 9% and a 2% terminal growth rate for 2023 and thereafter), plus a 15% discount due to low market visibility and a 25% discount as risk premium for its smaller market capitalisation.	
China Resources Power	836 HK	DCF (with a WACC of 9% and a 2% terminal growth rate for 2023 and thereafter), plus a 15% discount due to low market visibility.	

Note: Ratings and price targets are as of the date of the most recently published report (<http://www.Nomura.com>) rather than the date of this document.

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