



China's Thermal Coal Miners:

Credit Outlook Hinges On Government Policies, Energy Transition

S&P Global
Ratings

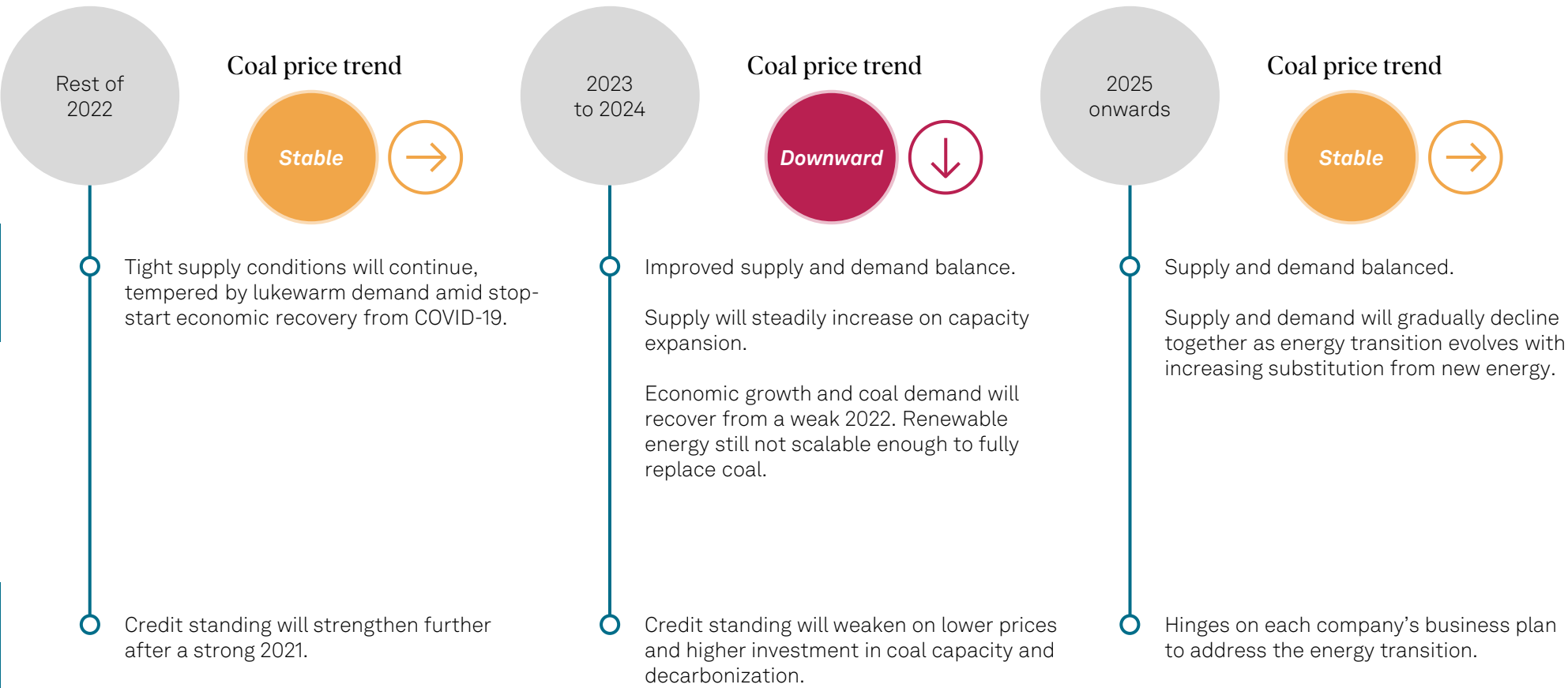
September 13, 2022

This report does not constitute a rating action

Key Takeaways | China Thermal Coal Outlook

Supply and demand dynamics

Major miners' credit standing

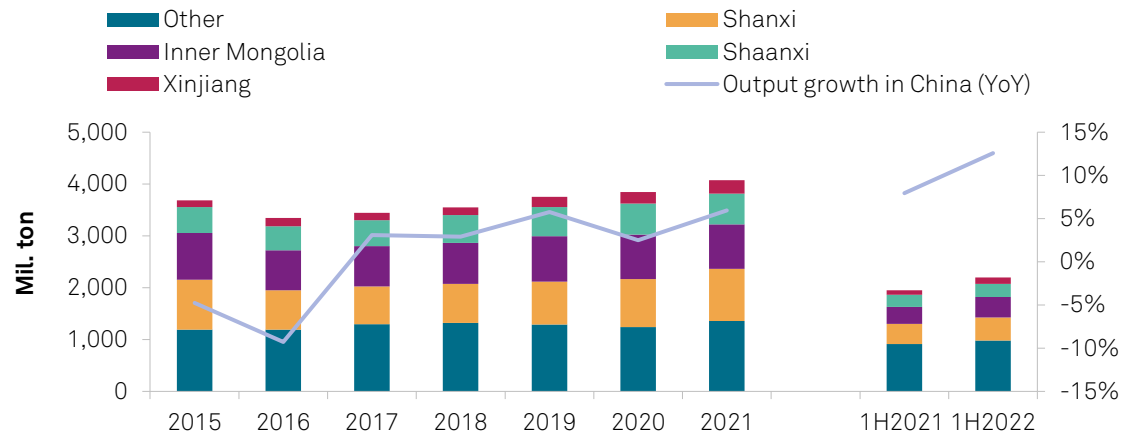


Supply Outlook | Policies Aim To Lift Domestic Supply

- We expect a slight increase in the domestic supply of coal over the next two to three years, relaxing somewhat the tight supply conditions of 2021-2022. The government plans to increase domestic coal output to 4.1 billion tons in 2025, from 3.9 billion tons in 2020.
- The government is likely to intervene to ensure a steady supply of coal for energy security. The main policy instruments are capacity increases and encouraging a higher proportion of long-term supply contracts with power generating companies (Refer to Appendix 1 for policy details).

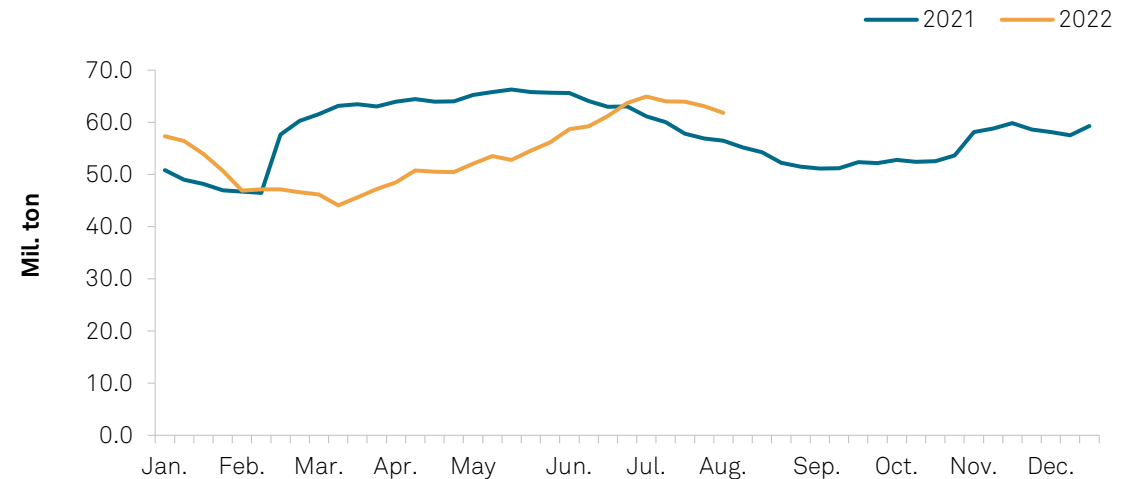
Credit implications for Chinese coal miners. Additional supply coming onstream will be from key state-owned coal producers. These sit on more premium mining resources and are in a better position to secure government approval. Approval will enable major coal producers to further expand their operating scale and gain market share. Meanwhile, smaller players with inefficient and/or less capacity will continue to be phased out.

Coal-friendly Policies Pushed 1H2022 Output To A Record Increase After 2016's Supply Side Reform



Source: Wind, S&P Global Ratings

Rising Coal Inventory At Major Ports Points To Easing Of Supply

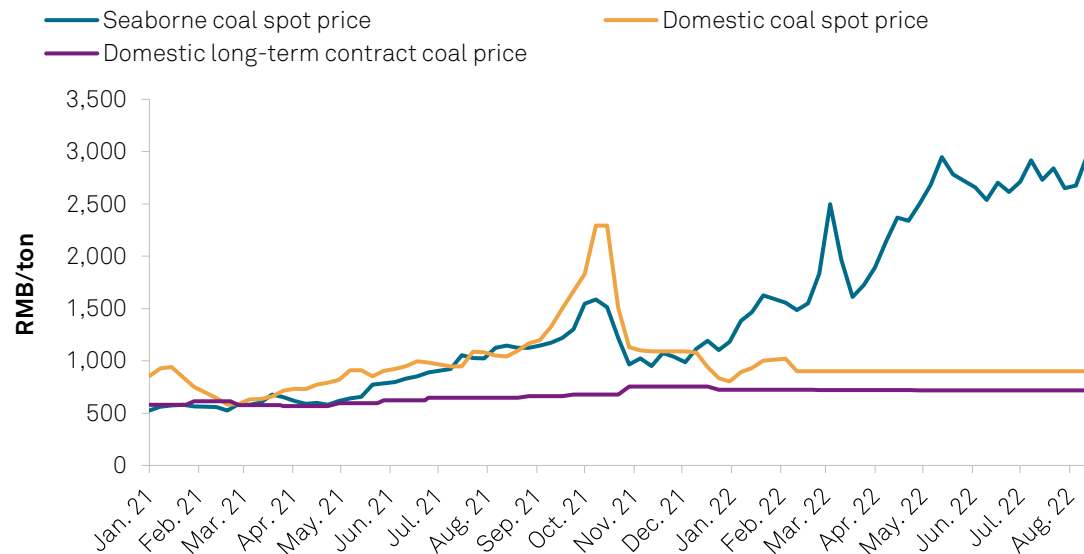


Source: Wind, S&P Global Ratings

Supply Outlook | Imports Unlikely To Be An Instant Fix For Supply Squeeze

- We do not expect a meaningful increase in coal imports, even with the removal of import tax from May 1, 2022 to March 31, 2023. China's coal consumption will continue to be dominated by domestic output, which contributed over 90% of supply in 2021.
- The enlarged price spread between seaborne coal and domestic coal since the Russia-Ukraine conflict makes imported coal unattractive. The seaborne coal supply shortage and Europe's demand for the replacement of Russian gas will keep seaborne coal prices high for the rest of the 2022.

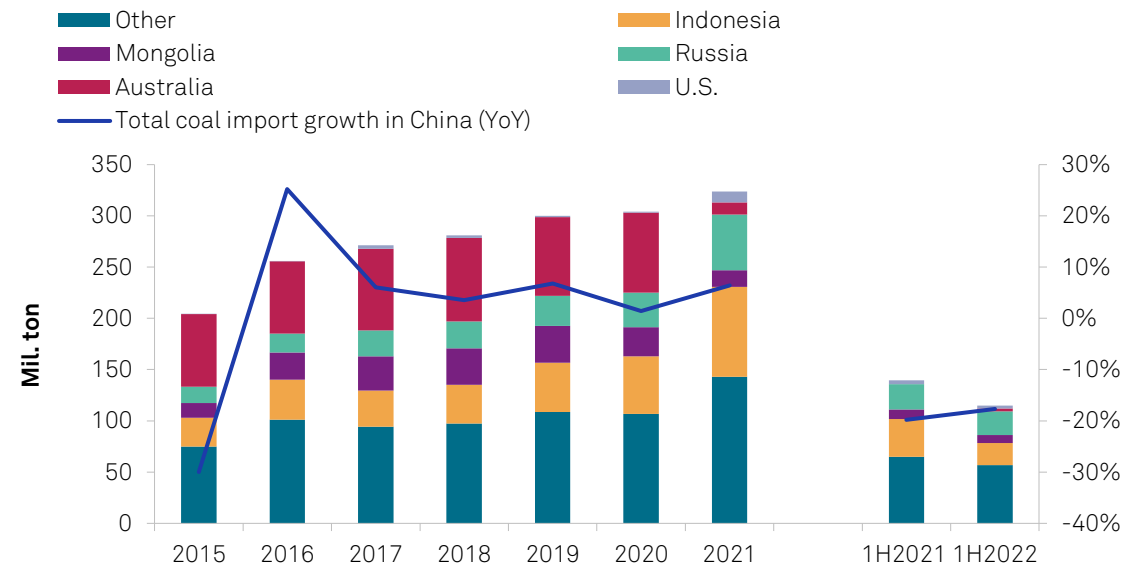
Price Spread Between Seaborne And Domestic Thermal Coal



Note: Seaborne thermal coal spot price: Newcastle Thermal Coal Spot Price. Domestic thermal coal spot price includes CCTD Qinhuangdao thermal coal (5500 kcal) spot trading price and Thermal Coal (Q5500, Shanxi Produced): Qinhuangdao market price. Domestic long-term contract price of thermal coal: Qinhuangdao thermal coal (5500 kcal) annual long-term contract price.

Source: Wind, S&P Global Ratings

China's Coal Imports Drop In 1H2022



Source: Wind, S&P Global Ratings

Demand Outlook | COVID-19, Renewable Energy Two Key Risks

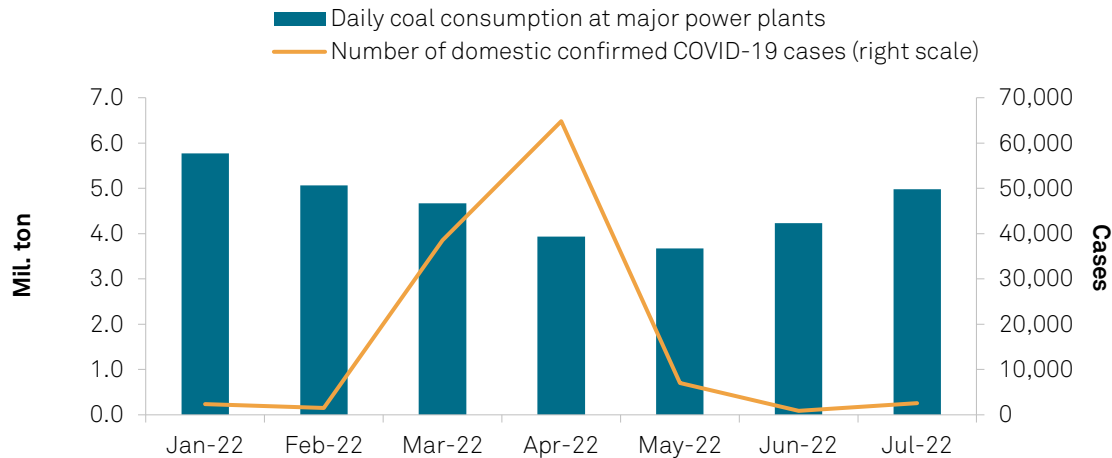
China's tepid recovery from COVID-19 will weigh on near-term demand.

- We project 2022 full-year GDP of 3.3%, which is well short of the "around 5.5%" government target. We currently assume GDP growth will rebound to 5.4% in 2023. This is subject to the COVID-19 situation and the government's policy stance towards it.

Replacement risk from renewable energy will weigh on long-term demand.

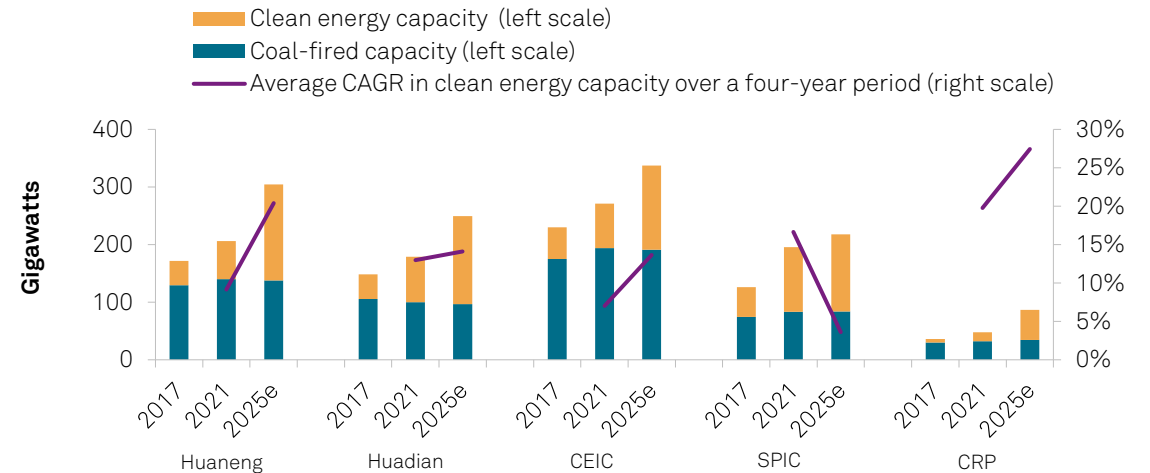
- China's five largest independent power producers (IPPs) have set ambitious targets to expand renewable energy capacity, and plan to achieve peak carbon emissions by 2025 or earlier. This is in response to the government's energy transition goal to raise the share of non-fossil energy consumption to about 20% by 2025.

Negative Correlation Between Surging COVID-19 And Coal Consumption



Source: Wind, S&P Global Ratings

Independent Power Producers Accelerate Takeup Of Renewables



Note: These IPPs account for around 44% of the country's power generation capacity. e--Expected. CAGR--Compound annual growth rate. Huaneng--China Huaneng Group. Huadian--China Huadian Corp, CEIC--China Energy Investment Corp. SPIC--State Power Investment Corp. CRP--China Resources Power Holdings.

Source: Company reports, S&P Global Ratings

Domestic Coal Prices To Retreat In 2023-2024



Note: Spot trading price based on the CCTD Qinhuangdao thermal coal index. The CCTD Qinhuangdao thermal coal (5500 kcal) price is not available for Aug-Nov in 2021. We used prices based on the Q5500 Shanxi Produced index instead. Annual long-term contract price of domestic thermal coal: Annual long-term contract price for Qinhuangdao thermal coal (5500 kcal). Source: Wind, S&P Global Ratings

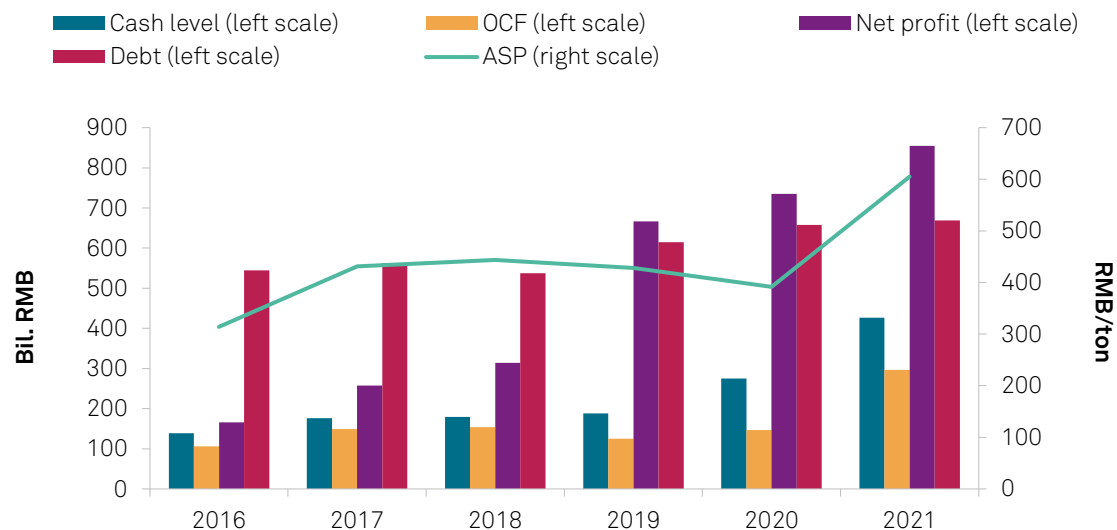
S&P Global Ratings' Coal Price Assumptions

- Based on our expectation for an improved supply and demand balance, we think domestic coal prices will drop in 2023-2024, following the same trend as our assumption on global seaborne coal prices.
- S&P Global Ratings' assumption on global seaborne coal prices: thermal coal (Newcastle 5,500 kcal) price to drop to US\$120/million tons (mt) and US\$80/mt in 2023 and 2024 respectively, compared with our assumption of US\$250/mt for the rest of 2022.

Coal Producers To Deploy Cash On Capacity Expansion, Renewable Energy

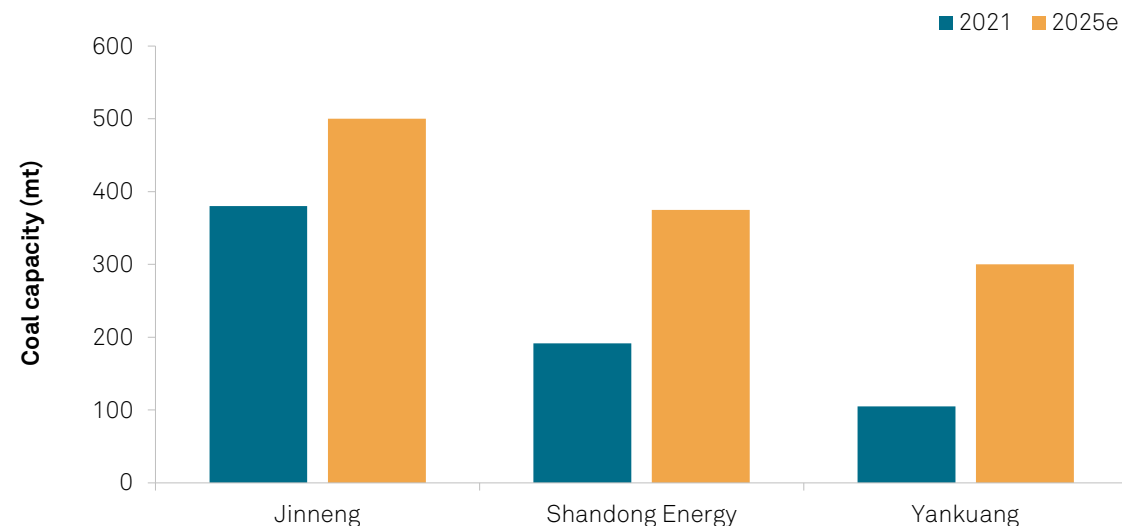
- Coal producers' credit metrics will weaken in the next two years. Cash accumulated over 2021-2022 will be spent on coal capacity expansion, renewable energy investment, mining automation and improved safety standards in 2023-2024. (See Appendix 2 for key coal producers' decarbonization targets)
- Sufficient access to domestic capital markets will help key producers to fulfill aggressive capacity expansion targets by 2025. This will increase industry concentration (See Appendix 3 on industry consolidation trends). Coal will remain an anchor source of energy in China for the next five years. Domestic key producers' funding will be less affected by energy transition than EU and US peers.

Windfall Gains For Key Coal Producers In 2020, 2021



Note: Calculation is based on the sum of financial data of China Shenhua Energy Co. Ltd., Shandong Energy Group Co. Ltd., Jinneng Holding Coal Industry Co. Ltd., Shaanxi Coal Coal Industry Group Co. Ltd. and China Coal Energy Co. Ltd. Shandong Energy is not included in 2016-2018 ASP calculation as the data was not available before it merged with Yankuang Energy Group Co. Ltd. OCF--Operating cash flow. ASP--Average selling price. Source: Wind, company financial statements, S&P Global Ratings

Key Coal Producers Plan Solid Expansion Of Coal Output By 2025



Note: Yankuang plans to reach 300 mt capacity by 2025-2030. mt--Million ton, e--Estimate. Jinneng--Jinneng Holding Coal Industry Co. Ltd., Shandong Energy--Shandong Energy Group Co. Ltd., Yankuang--Yankuang Energy Group Co. Ltd. Source: Company reports, S&P Global Ratings

Appendix 1 | Chinese Government Coal Policies In 2022

Policy	Release date	Policy details
Price range	2/24/2022	The National Development and Reform Commission (NDRC) set a price range for the benchmark 5,500 kcal thermal coal at Qinhuangdao Port, for medium and long-term contracts, of RMB 570-770 per ton, effective from May 1, 2022.
Long-term contract requirements	4/29/2022	NDRC requested coal producers offer no less than 80% of their annual coal output through medium and long-term contracts.
	7/1/2022	NDRC emphasized 100% coal mines should offer at least 80% of coal resources through long-term contracts and maintain s 100% contract signing rate and contract fulfillment rate.
Additional loan from policy banks	4/26/2022	The People's Bank of China will increase its relending quota by RMB100 billion to support coal development and boost storage capacity. "Relending" refers to loans provided to national banks to finance eligible coal projects at prime rates. The total value of these loans reached RMB 300 billion after the addition.
Import tax	5/5/2022	Chinese government tax exemptions on imported coal between May 1, 2022 and March 31, 2023.
Increase coal capacity	5/31/2022	China's State Council announced plans to increase national coal production capacity by 300 million tons this year, through existing capacity expansion and new capacity rollouts.

Source: National Development and Reform Commission, Ministry Finance of the People's Republic of China, S&P Global Ratings

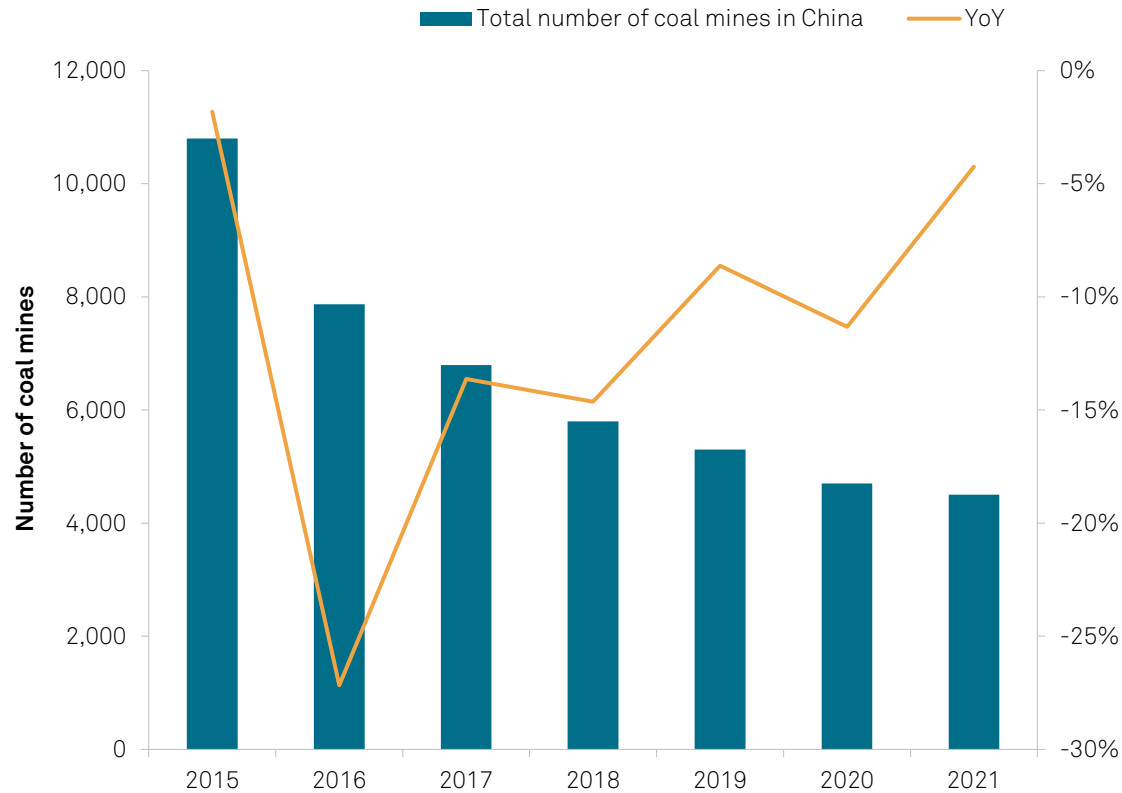
Appendix 2 | Key Coal Producers' Decarbonization Targets

Company	Carbon to peak and neutrality target	New energy investment plan	Other emissions reduction targets
China Shenhua Energy Co. Ltd. (key subsidiary of China Energy Investment Group Co. Ltd.)	Carbon to peak before 2025. Carbon neutrality before 2060.	No less than 40% of annual capital expenditure will be used on renewable energy by 2030. The company also set a goal of developing more than 600 Mw of new energy during 2021-2025.	The company states that its increase in Scope I and Scope II CO2 equivalent emissions is limited to 48% in 2030, compared to a 2020 baseline.
Jinneng Holding Power Group Co. Ltd.	N/A	Clean energy capacity to reach 30 million kilowatts by the end of 2025 and company will try to reach 40 million kilowatts, which is 6 to 7 times the current installed capacity;	N/A
Shandong Energy Group Co. Ltd.	Carbon to peak before 2030.	Clean energy capacity to reach 15 million kilowatts-20 million kilowatts by the end of 2025 .	N/A
Yankuang Energy Group Co. Ltd. (BB/Stable/--), key subsidiary of Shandong Energy)	Pending. Yankuang will complete the preparation of the Carbon Peaking and Neutrality Action Plan by 2022.	Striving to reach installed capacity of over ten million kilowatts of new energy power generation and a hydrogen supply capacity of over 100,000 tons/year in five to ten years.	<p>Emissions targets - The company states that it has dual control targets for the concentration of major pollutants and total emissions in order to ensure full implementation rate of its policies on hazardous waste disposal and management of radioactive sources.</p> <p>Energy saving targets - The company states that energy consumption from raw coal production is subject to limits of 3.58 kg standard coal/ton.</p> <p>Water saving targets - The company states that its recycling rate of mine water shall not be less than 85%.</p>
Shaanxi Coal and Chemical Industry Group Co. Ltd.	Carbon to peak before 2029.	*Clean energy capacity of 30 million kilowatts to be generated by the power subsidiary.	N/A
China Coal Energy Group Co. Ltd.	N/A	Aims to install 20 million kilowatts of new energy power generation during 2021-2025.	N/A

Sources: companies' annual reports and ESG reports, Jinneng's company website, China National Coal Association, *China5e news website, S&P Global Ratings

Appendix 3 | Coal Industry Consolidation Is Underway

Total Number Of Coal Mines Has Dropped 58% Since 2015



Source: China National Coal Association, S&P Global Ratings

Top Eight Coal Producers' Share Of Total Output



Source: China National Coal Association, S&P Global Ratings

Related Research

- [S&P Global Ratings' Metal Price Assumptions: Prices Settle Lower As Slowdown Fears Grow](#), August 8, 2022
- [Economic Outlook Asia-Pacific Q3 2022 Overcoming Obstacles](#), June 26, 2022
- [Ebbing Coal Prices To Lead China's Independent Power Producers On A Year Of Repair](#), Apr 12, 2022



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