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Macro Economy

China's GDP grew 7.7% y-o-y in 1Q 2013, down from 7.9% in 2012 Q4 and below the 7.8% growth rate of 2012. The disappointing Q1 result reflected weak growth in the industrial sectors due to weak domestic demand and sluggish export markets as well as a need to work through inventory backlog. Additional factors included new controls on government spending particularly during the festive CNY period and slowing growth in property investment due to concerns about policy tightening.

Looking forward, if avian flu is kept under control, GDP growth could again rise above 8.0% on the back of recovering consumption, easing capital constraints, tertiary sector growth and reduced inflation.

Power Industry

China (all sectors) consumed 1,214 TWh of electricity in 2013 Q1, growing at 4.3% y-o-y, driven primarily by a 3.6% increase in manufacturing consumption. Total generation (from generators with annual main business revenue of RMB 20 million or above) for the quarter amounts to 1182 TWh, up 2.9% y-o-y as a result of increases in hydro (+21.7%) and thermal (+0.5%) generation. Clearly, smaller generation companies (below the designated size) have provided significant generation to meet load growth. Thermal, hydro, nuclear, and wind account for 85.6%, 11.1%, 1.9% and 2.8% of generation respectively.

By April 2013, China had 1,158 GW of existing generation capacity, having added 14.5 GW of new capacity during the quarter, of which 9.3 GW is thermal capacity. Construction has commenced on another 10 GW of capacity, bringing the total capacity under construction up to 160 GW, a majority of which is hydro at 65.8 GW compared to 53 GW thermal and about 30 GW nuclear.

Nationally, given the current demand outlook, overall supply appears sufficient. However, a combination of transmission constraints, misaligned incentives that result in generation capacity not being used efficiently, and seasonality of hydro resources means that key consumption regions Guangdong, Sichuan and Jiangxi continue to be at risk of power shortages in the coming summer.

Fuel Markets

Gas

China consumed a total of 29.7 billion cubic metre (bcm) of natural gas first two months into 2013, up 14.7% y-o-y. Demand growth appears weak – past growth rates over 20 percent have been achieved. January and February are the traditional peak periods for heating. Domestic production increased 8.4% y-o-y to 20.7 bcm and imports increased 23.5% to 8.5 bcm, mainly as a result of increased import capacity from Central Asia.

Coal

Thermal coal prices ended March at RMB 618/Mt 5,500kcal/kg NAR at Qinghuadao port, down 2.5% from the start of 2013.

Imports into China remains strong despite falling domestic prices, at 26.2Mt in March and totalled 80Mt for 2013 Q1, up 30.1% y-o-y. Coal supply remains high both at ports and power stations.

The downward trending of coal prices benefits coal fired generators; however coal producers are strained by the prevailing supply glut following a period of significant investment and expansion.

Industrial Performance (2013 1st Quarter Financial Results)

CNY Million	Revenue	Net Profit	%	Tot Asset	Tot Debt	Debt to Assets Ratio
StateGrid* (2012 FY)	1,885,500	65,070 before tax	3.45%	2,352,700	1,355,626	57.6%
Huaneng Intl	32,136	3,290	10.24%	256,172	187,902	73.3%
Datang Power	18,413	1,404	7.63%	280,651	222,670	79.3%
PetroChina	540,263	40,359	7.47%	2,297,181	1,075,551	46.8%
Sinopec	695,571	16,831	2.42%	1,290,018	702,005	54.4%
China Coal	20,125	1,990	9.89%	189,065	86,014	45.5%
Shenhua Energy	60,039	13463	22.42%	472,116	154,703	32.8%

*Sourced from StateGrid 2012 Social Responsibility Report, only profit before income tax is available.

Regulatory Updates

The highlight of the quarter was China's completion of a once-a-decade leadership transition, heralding significant but expected changes to China's economic and energy policies in the coming decade. Three developments to watch for:

- Ending the dual track pricing mechanism of thermal coal that has been in place for 16 years and allowing coal prices to be set by bilateral contract negotiation from 2013 onwards;
- Starting an annual adjustment to the on-grid tariff for coal generation based on market coal prices, while also reducing the percentage of coal price variation that generators must absorb from 30% to 10%; and
- Deciding whether to roll the market-based gas pricing trial that launched in Guangdong and Guangxi to other provinces.

The State Electricity Regulatory Commission, formed in 2003, was integrated into the National Energy Administration (NEA) in March 2013. More consistent and systematic regulation is expected across all energy sectors. It remains to be seen whether this move will breathe new life into long-stalled power sector reforms.

Key things to watch: scope of restructured NEA responsibilities, 2013 work agenda, and the grid development plan.