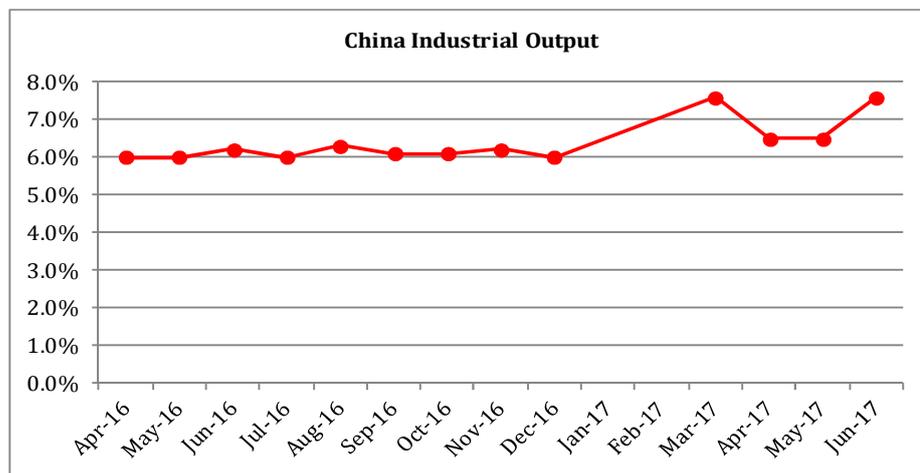


Based on the data that we gathered from National Statistics Bureau, China's coal production rose by 10.6% YoY to 308 million tonnes in June from a year ago as a result from rising demand during hot summer season as well as to fulfill electricity cutbacks from the slash output of hydropower plant due to heavy rainfall. As a result, thermal coal prices have surged this year hitting a fresh record of 614,6 yuan (\$90.81) a tonne in early trading on Monday.

Chinese buying interest in coal imports also has recovered as the country has been hit by a heat wave which boost coal consumption at power plants, and lifted buyer sentiment. It is also supported by a better than expected result of China's economic data. China's 2Q GDP growth stood at 6.9% YoY, above market's expectation at 6.8% YoY. Meanwhile, industrial output also recorded a surprise and increased by 7.6% YoY, whereas market's expectation was at 6.5% YoY.

Our view: we expect coal-related stocks' rally may last longer than what we had anticipated before as demand surged due to favorable seasonality as well as output slashed from hydropower plant. However, we believe that the upside for coal price will remain limited as China plans to ramp up coal outputs to accommodate their growing consumption. While we see a positive trend in coal-related stocks such as ADRO, PTBA, UNTR, and DOID, it is more of a short-term play, driven by rising China demand and better-than-expected second quarter economic data. Nevertheless, China's intention to increase production output will deliver a negative sentiment for the long run.



Source: Sinarmas Investment Research, Bloomberg

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