



ENERGY PRICE LIBERALISATION CONTINUES

7 July 2008

Higher fuel and electricity prices reinforce our view that the government is committed to using market pricing as essential to address the key concerns of increasing energy efficiency and cutting pollution. These moves are just the first step, however. Expect more of the same. Our detailed review of China's long-term energy needs shows that demand is still seriously underestimated by the government, the consensus and other agencies: The IEA's 2030 forecast looks low by 48%.

Pricing: Fuel, Power Prices Up – More To Come

- Diesel Up 18%
- Gasoline Up 17%
- End-user And On-Grid Power Prices Up About 5%
- Aviation Fuel Up 25%
- Viewed As Essential To Boost Efficiency And Maintain Supply
- Further Increases Likely In 2H
- No Statements Yet On Refining Subsidies

Electricity: Consumption Up 12.3% YTD

- On-Grid Tariffs Up 5.1%
- Further Tariff Increase Likely Before Year-end
- 4.7% End-User Increase
- Non-base Tariffs Moving Up To Secure Supply
- Hydro 22% Of YTD New Capacity

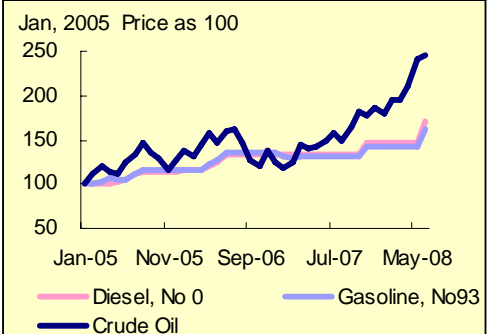
Trade: Imports Of Oil Products Jump

- US\$2.6bn Of Diesel Imported Jan-May
- 2008 Jan-May Gasoline/Diesel Net Imports of US\$2.6bn
- Vs 2007 Five Month Net Gasoline/Diesel Exports of US\$1.8bn
- Strong Coal Price Driving Exports, Despite Shortages

Data To Watch: For Impact Of New Pricing

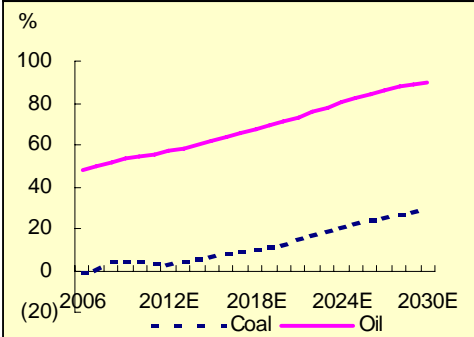
- Electricity Output – 2008 Growth Still Close To 2007's 13.5%
- Coal Spot Pricing – Early Signs That June Freeze Ineffective
- Fuel Shortages – Higher Prices Should Alleviate
- Blackouts – Likely, Over Summer Especially In South

Fuel, Crude Oil Price Change



Source: CEIC, Research-Works

Import Dependency



Source: Research-Works estimates

Recommendations

- *Overweight Sector*
- *Coal – Shenhua, China Coal*
- *IPPs – CR Power, Huaneng*
- *Oil – Sinopec and PetroChina*
- *Equipment Makers – Dongfang, Harbin*

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