

Company Rating:

Buy

Target Price: \$38.9

Key Data

Share price (HK\$)	28.60
Upside potential (%)	36.0
52Wk H/L(HK\$)	36.25/24.15
Issued shares (mn)	19,890
- H Shares (mn)	3,399
- A Shares (mn)	16,491
Market cap	
- H Shares (HK\$m)	97,199
- A Shares (Rmbmn)	365,276
3-mth ave daily turnover (HK\$ mn)	546
Auditors	KPMG
Major shareholder (%)	
Shenhua Group Corp Ltd	72.96

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H12 (%)

Coal, %	66.8
Power, %	29.2
Others, %	4.0
Total, %	100

Source: Company

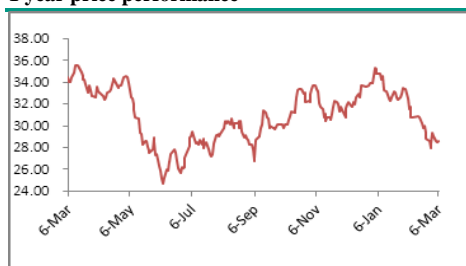
Share performance (%)

	Absolute	Relative*
1-mth performance	(6.99)	(4.23)
3-mth performance	(11.18)	(15.21)
6-mth performance	(0.35)	(20.83)

*Relative to HSCEI Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 7 Mar., 2013

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Previous report: 23 Jan, 2013

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China Shenhua (1088 HK)

China Coal & Consumable Fuels Industry

LT contract prices finalize, downside earnings risk reduces

China Shenhua has finalized long-term contracts with 5 largest local IPPs at avg. price of about Rmb620/ton in 2013, slightly above last year. In such a case, its earnings growth in 2013 is volume driven rather than price driven. The stock has been underperformed the market significantly due to downside earnings risk. As contract price is determined, downside earnings risk is contained. Bargain hunting opportunity arises.

The long-term contract has been settled with 5 largest IPPs. The contract price is set to link with the spot market prices and will be Rmb10 less than the Bohai-Rim steam coal price. Our channel checks indicate the avg. contract price is at about Rmb620/ton. We welcome the results because: 1) the largest uncertainty for thermal coal market has been removed since last December. We foresee the thermal coal spot market prices will more reflect the real economic recovery rather than the competition between thermal coal producers and IPPs; 2) the new pricing mechanism is based on the spot prices, which benefits Shenhua as historically contract sales weighted about 50% in its total sales.

QHD coal inventory dropped again. QHD coal inventory reduced to 7.2mn tonnes on 2 March, down 10% mom from the 8.0mn tonnes level on Feb 2, indicating a restocking procedure from IPPs after the China Lunar New Year. We believe this will support the Bohai-Rim steam coal price index, which reached Rmb620/t, the lowest since its inception but still Rmb20 higher than Shenhua's 1H12 seaborne prices.

Bearish sentiment largely priced in. Its H-share underperformed the market significantly due to poor outlook of coal market and uncertainty on LT contracts price. Stock valuation has become attractive.

Risk factors: 1) the influx of foreign coal capping the rebound momentum of domestic coal prices; 2) Weak power consumption growth on slow economic growth; 3) Possible change of resources tax system.

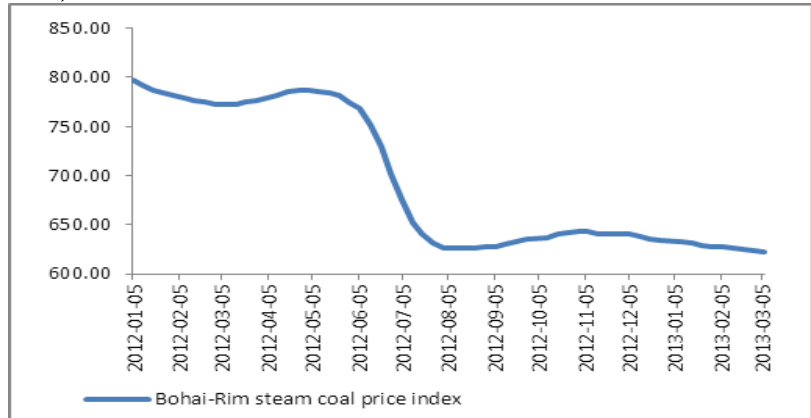
Performance and Valuation

FY ended Dec 31	2011A	2012E	2013E	2014E
Turnover (Rmb mn)	208,197	250,375	303,639	370,458
Chg (%.yoy)	32.1	20.3	21.3	22.0
Net Income (Rmb mn)	45,677	52,136	63,728	78,593
Chg (%.YoY)	17.6	14.1	22.2	23.3
EPS (Rmb)	2.30	2.62	3.20	3.95
Chg (%.YoY)	17.6	14.2	22.2	23.3
BVPS (Rmb)	11.4	13.3	15.8	18.8
Chg (%.yoy)	10.1	17.5	18.2	19.0
P/E (x)	—	8.7	7.2	5.8
P/B (x)	—	1.7	1.5	1.2
Dividend yield (%)	—	4.5	5.5	6.8
ROAE (%)	21.20	21.23	22.01	22.89

Source: Company, Bloomberg, ABCI Securities estimates (assuming Rmb1.0=HK\$1.25)

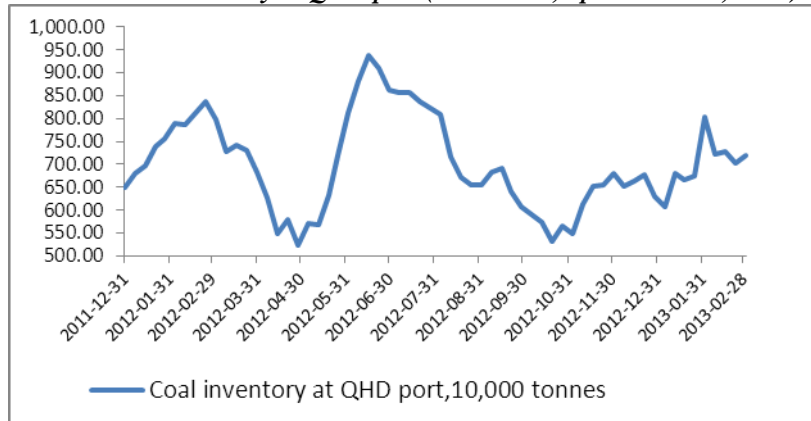


Exhibit : Bohai-Rim steam coal price index (5500 kcal/kg, up to 6 March, 2013)



Source: Wind, ABCI Securities

Exhibit : Coal inventory at QHD port (10k tonnes, up to 6 March, 2013)



Source: Wind, ABCI Securities



Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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