

Key Data

Share price (HK\$)	32.0
Target price (HK\$)	38.9
Upside potential (%)	21.6
52Wk H/L(HK\$)	36.45/24.15
Issued shares (mn)	19,889.6
- H Shares (mn)	3,398.6
- A Shares (mn)	16,491.0
Market cap	
- H Shares (HK\$m)	108,755
- A Shares (Rmbmn)	371,872
3-mth ave daily turnover (HK\$ mn)	461
Auditors	KPMG
Major shareholder (%)	
Shenhua Group Corp Ltd	72.96

Revenue composition in FY11 (%)

Coal	68.5
Power	28.3
Railway	1.3
Shipping	1.4
Port	0.1
Others	0.4

Source: Company

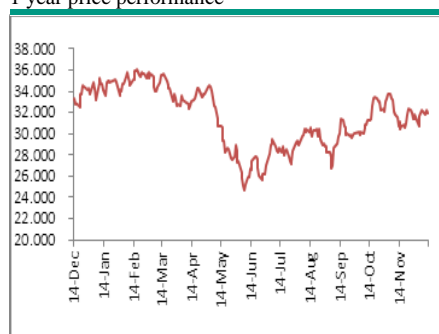
Share performance (%)

	Absolute	Relative*
1-mth	4.1	(1.9)
3-mth	1.9	(6.9)
6-mth	20.3	1.0

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Previous report
Date: 30 November, 2012
Rating - Buy

China Shenhua (1088 HK) – Buy

China Coal & Consumable Fuels Industry

Favorable market developments to Shenhua

Thermal coal producers and IPPs are waiting for NDRC's indication on the new pricing mechanism for 2013 long-term contract. However, the recent rally of Australia thermal coal price and the recent decline of coal inventory in QHD port will strengthen the bargaining power of local coal producers when they are in talks with IPPs. The latest developments are favorable to Shenhua. We maintain our Buy rating on Shenhua with target price of HK\$38.9.

Both thermal coal producers and IPPs are waiting for central government's response. Our channel check suggests that both sides are waiting for the details from the NDRC on the long-term contract pricing mechanism in 2013. While there are some uncertainties, we see some positive signs for China Shenhua.

QHD coal inventory dropped again. QHD coal inventory reduced to 6.53mn tonnes, down 4% wow from the 6.8mn tonnes level on Dec 1 (30.4% lower than the peak level of 9.38mnt in Jun). Also, National Bureau of Statistics of China unveiled average daily power output rebounded 6.3%MoM to 134Gwh in Nov from 126Gwh in Oct. These two statistics suggest downstream demand for coal is recovering.

Domestic coal prices remain stable, but international thermal coal prices have increased significantly. Australia BJ thermal coal price has reached USD93.25/t, after 4 consecutive weeks' recovery, up 16% from USD80.35/t on Nov. 8. Import coal price will increase and price competitiveness of import coal reduces. The move will lend support to domestic coal prices.

Valuation looks attractive. Shenhua's H-share is trading at 9.2x 2013E PER and 1.7x 2013E PB, but is still 23.9% lower than our target price. We maintain our rating.

Risk factors: 1) weaker power consumption growth on slowed economic growth; 2) possible change of resources tax system; 3) the influx of foreign coal cap the rebound momentum of domestic coal prices.

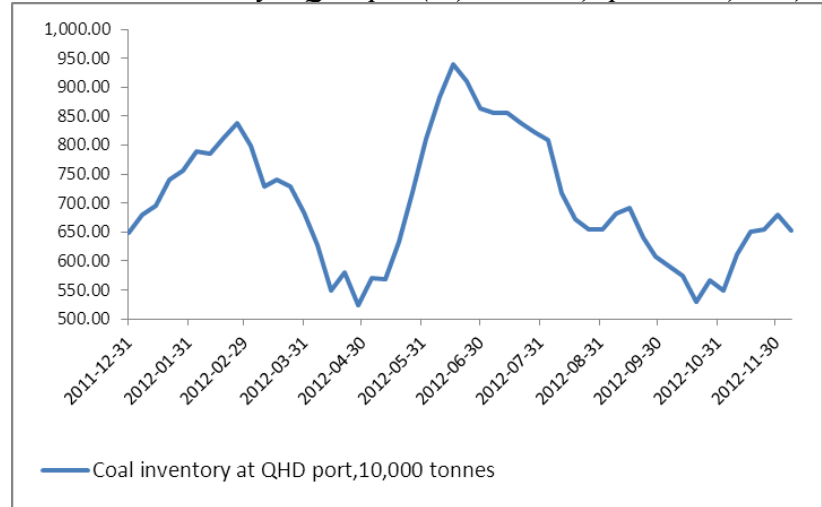
Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	2012F	2013F
Turnover (Rmb mn)	157,662	208,197	237,392	272,070
Net Income (Rmb mn)	38,834	45,677	42,398	55,918
Chg (% YoY)	28.3	17.6	-7.2	14.3
EPS (Rmb)	1.95	2.30	2.13	2.81
Chg (% YoY)	28.3	17.6	-7.2	14.3
P/E (x)	—	11.2	10.5	9.2
P/B (x)	—	2.3	2.0	1.7
Dividend yield (%)	—	3.5	3.7	4.3
ROAE (%)	20.7	21.2	20.0	19.7

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

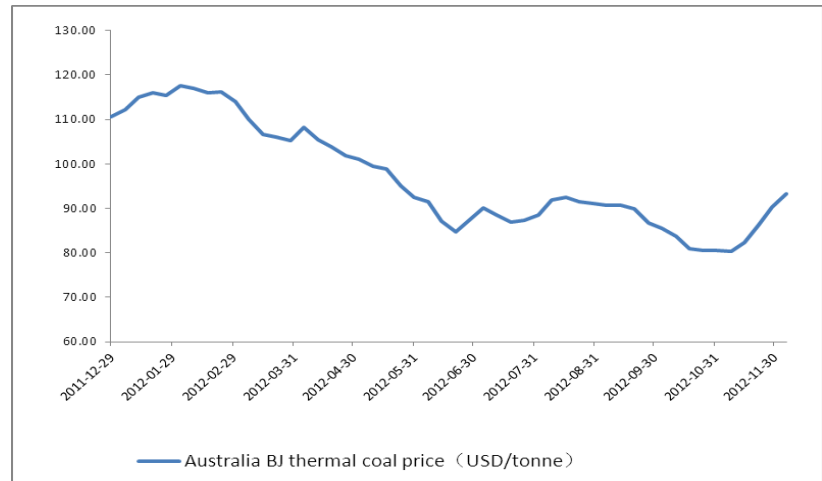


Exhibit: Coal inventory at QHD port (10,000 tonnes, up to Dec. 8, 2012)



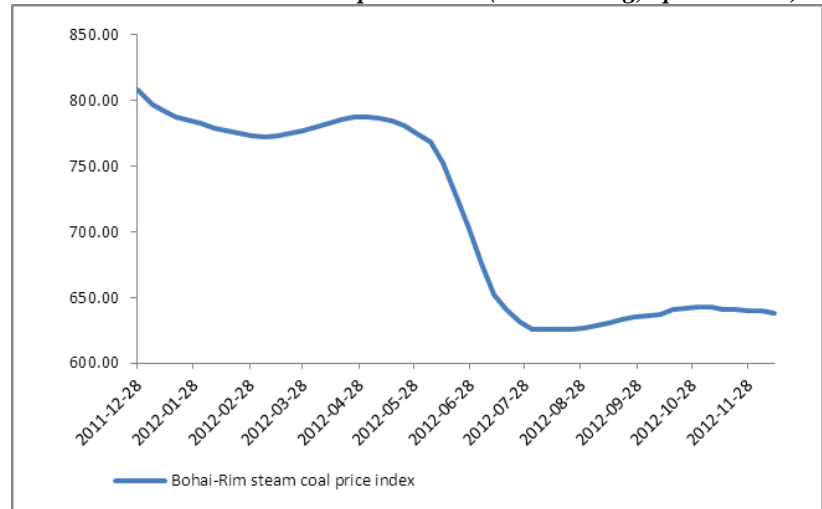
Source: Wind, ABCI Securities

Exhibit: Australia BJ thermal coal price (USD/tonne, up to Dec. 6, 2012)



Source: Wind, ABCI Securities

Exhibit: Bohai-Rim steam coal price index (5500 kcal/kg, up to Nov 29)



Source: Wind, ABCI Securities

Disclosures

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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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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