



November 13, 2013  
Company Report  
Rating: BUY  
TP: HK\$ 29.90

H-Share price (HK\$) 24.05  
Est. share price return 24.33%  
Est. dividend yield 4.55%  
Est. total return 28.88%

Previous Rating & TP BUY; HK\$ 29.66  
Previous Report Date Aug. 27, 2013

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**Key Data**

52Wk H/L(HK\$)	35.45/18.10
Issued shares (mn)	19,890
H-Shares (mn)	3,399
A-Shares (mn)	16,491
Market cap	
H-shares (HK\$ mn)	81,736
A-Shares (HK\$ mn)	266,495
3-mth avg daily turnover (HK\$ mn)	470.2
Major shareholder(s) (%):	
Shenhua Group Ltd.	73.01

Source(s): Company, Bloomberg, ABCI Securities

**1H13 Breakdown of segment profit from operation\* (%)**

Coal	57
Power	22
Transportation	21

Source(s): Company, ABCI Securities

\*Segment profit from operation represents the revenue less COGS, SG&A expenses and assets impairment

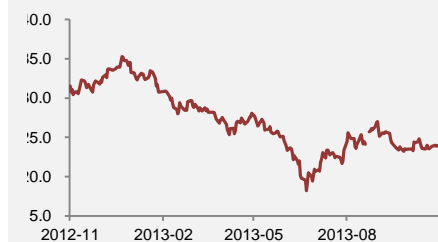
**Share performance (%)**

	Absolute	Relative*
1-mth	2.34	2.52
3-mth	(6.05)	(9.75)
6-mth	(13.18)	(8.25)

\*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg

China Shenhua (1088 HK)  
Market leader with transportation prowess

- China Shenhua is the leading coal producer in China with strong bargaining power. The low unit cost, expanded power business, and strong government support will continue to strengthen its position in the market
- Shenhua's new project, the Huangda Railway will expand its profitable railway business in Shandong province. Its parent company's railway project in Mongolia will further enhance its logistic capacity
- With its attractive valuation at 1.14x FY14E P/B at present and the expectation of solid FY13E/14E EPS, we maintain **BUY** with TP at HK\$29.90, reflecting 9.5x FY14E P/E and 1.42x FY14E P/B

**Market leader with strong bargaining power.** The Group increased spot prices by RMB 4~11/ton in Nov. Such move was followed by China Coal (1898 HK) and other major coal producers in China. Accordingly, Bohai-Rim thermal coal prices increased RMB 8/ton on Nov 6, the highest jump since 2012. This recovery in spot price is favorable to its negotiation with the IPPs on the 2014 coal contract price.

**Transportation capacity to grow on expanded railway network.** Shenhua's parent company (Shenhua Group Ltd.) was reported to have made rapid progress in bidding the world's largest deposit of high-quality coking coal in Mongolia. It has signed a memorandum of understanding with Mongolia's state-owned railway operator to build cross-border railways for delivery of coking coal. The Group is likely to expand its profitable railway business and coke coal sales. Separately, the Group is about to commence construction of the Huangda Railway, expanding its coal-line railway network in Shandong province. The expanded railway coverage will help the Group integrate its overseas coal sources with domestic downstream demands.

**Thermal power business expected to grow and serve as good buffer in a lukewarm coal market.** The Group's total installed capacity of power generators reached 41,798 MW by June 30, 2013, exceeding most of the Hong Kong-listed Chinese IPPs and contributed ~29% to total revenue in FY12. The rebounded spot coal price reduces the possibility of substantial cut in power tariff in the near term. We believe the expanded power business will reduce the downside risk of coal prices for the Group.

**Maintain BUY with TP at HK\$29.9.** Shenhua is trading at 1.14x FY14E P/B. Considering its low unit cost, high ROE and expanded transportation network and power business, we believe the counter is undervalued. Maintain **BUY** with TP at HK\$29.66, reflecting 9.5x FY14E P/E and 1.42x FY14E P/B.

**Risk factors:** 1) Further declines in coal prices and electricity tariffs; 2) Supply-demand imbalance; 3) Business cycles of downstream industries; 4) Surging costs; 5) FY13E DPS may drop.

**Results and Valuation**

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	209,225	250,260	258,899	286,124	309,162
Chg (% YoY)	32.70	19.61	3.45	10.52	8.05
Net Profit (RMB mn)	45,846	48,858	43,899	49,292	54,831
Chg (% YoY)	18.06	6.57	(10.15)	12.28	11.2
EPS (RMB)	2.31	2.46	2.21	2.48	2.76
Chg (% YoY)	18.08	6.55	(10.13)	12.28	11.24
BVPS (RMB)	11.47	12.90	14.62	16.54	18.68
Chg (% YoY)	11.26	12.44	13.29	13.17	12.95
P/E (x)		7.71	8.58	7.64	6.87
P/B (x)		1.47	1.30	1.14	1.01
DPS(RMB)	0.90	0.96	0.86	0.97	1.08
Yield (%)		5.07	4.55	5.11	5.69
ROE (%)	21.16	20.16	16.04	15.91	15.65
ROA (%)	11.78	11.31	9.36	9.81	10.05

Source(s): Bloomberg, ABCI Securities estimates



**Exhibit 1: 9M13 Performance and Results Highlights**

As at Sep 30	9M12	9M13	YoY, %
Basic earnings per share	1.949	1.724	(11.54)
Net cash generated from operating activities per share Current period (RMB mn)	2.91	1.77	(39.18)
Revenues	178,367	197,467	10.71
Profit before income tax (mn RMB )	53,122	52,098	(1.93)
Profit attributable to equity shareholders of the Company	38,767	34,299	(11.53)
Net cash generated from operating activities	57,844	35,171	(39.20)
Total assets (RMB mn)	457,367	496,584	8.57
Total liabilities (RMB mn)	150,810	169,496	12.39
Total equity (RMB mn)	306,557	327,088	6.70
Of which: Equity attributable to equity shareholders of the Company (RMB mn)	256,589	271,097	5.65
Shareholders' equity per share (RMB/share)	12.9	13.63	5.66

Source(s): Company

**Exhibit 2: 9M13 Major operating results**

As at Sep 30	9M12	9M13	YoY, %
Commercial coal production (mnt)	230.9	236.8	2.56
Coal sales (mnt)	329.9	366.3	11.03
Of which: Export (mnt)	2.8	1.9	(32.14)
Import (mnt)	5.7	7.4	29.82
Transportation turnover of self-owned railways (Bn tonne kilometers)	129.5	155.2	19.85
Seaborne Coal (mnt)	147	161.4	9.80
Seaborne coal at Huanghua Port (mnt)	67.2	92.4	37.50
Seaborne coal at Shenhua Tianjin Coal Dock (mnt)	20.2	22.8	12.87
Shipping volume (mnt)	73.6	83.4	13.32
Shipment turnover (Bn tonne nautical miles)	62.3	81.7	31.14
Gross power generation (Bn kwh)	155.63	169.49	8.91
Total power output dispatch (Bn kwh)	144.8	158.01	9.12

Source(s): Company

**Exhibit 3: Comparison of China Shenhua and major Hong Kong-listed IPPs (as of June 30, 2013)**

Company Name	Tick	power output dispatch, 100GWh	total installed capacity of power generators, MW
China Shenhua	1088.HK	983	41,798
Huaneng Power	0902.HK	1,413	66,341
Datang Power	0991.HK	878	38,629
China Res Power	0836.HK	837	25,271
Huadian Power	1071.HK	818	34,463
China Power	2380.HK	270	12,963

Source(s): Company



**Consolidated income statement (2011A-2015E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Revenue</b>	209,225	250,260	258,899	286,124	309,162
Coal revenue	138,263	165,989	164,958	177,473	192,033
Power revenue	61,204	71,096	80,310	93,588	100,854
Other revenues	9,758	13,175	13,630	15,063	16,276
Cost of sales	(128,638)	(167,754)	(181,799)	(200,287)	(216,414)
<b>Gross profit</b>	<b>80,587</b>	<b>82,506</b>	<b>77,100</b>	<b>85,837</b>	<b>92,749</b>
SG&A	(11,056)	(12,950)	(11,907)	(10,948)	(10,067)
Other operating expenses, net	(825)	48	48	48	48
<b>Profit from operations</b>	<b>68,706</b>	<b>69,604</b>	<b>65,241</b>	<b>74,937</b>	<b>82,730</b>
Other income/cost/and loss	(1,857)	(1,593)	(1,726)	(1,659)	(1,692)
Pre-tax profit	66,849	68,011	63,515	73,278	81,038
Profits tax	(14,041)	(10,965)	(12,258)	(15,725)	(17,018)
<b>Net profit</b>	<b>52,808</b>	<b>57,046</b>	<b>51,256</b>	<b>57,552</b>	<b>64,020</b>
<b>Profit attributable to:</b>					
Minority interests	6,962	8,188	7,357	8,261	9,189
<b>Equity shareholders of the Company</b>	<b>45,846</b>	<b>48,858</b>	<b>43,899</b>	<b>49,292</b>	<b>54,831</b>
<b>EPS (Basic), RMB</b>	<b>2.31</b>	<b>2.46</b>	<b>2.21</b>	<b>2.48</b>	<b>2.76</b>
<b>Dividend per share, RMB</b>	<b>0.90</b>	<b>0.96</b>	<b>0.86</b>	<b>0.97</b>	<b>1.08</b>

Source(s): Company, ABCI Securities estimates

**Financial Ratios (2011A-2015E)**

<b>FY Ended Dec 31</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Profitability ratio (%)</b>					
Gross profit margin	38.52	32.97	29.78	30.00	30.00
EBT margin	31.95	27.18	24.53	25.61	26.21
Net profit margin	21.91	19.52	16.96	17.23	17.74
ROA	11.78	11.31	9.36	9.81	10.05
ROE	21.16	20.16	16.04	15.91	15.65
<b>Cost ratio (%)</b>					
Admin/Sales	5.28	5.17	4.60	3.83	3.26
Effective tax rate	21.00	16.12	19.30	21.46	21.00
<b>Leverage (x)</b>					
Current ratio	1.24	1.05	1.04	1.07	1.20
Quick ratio	1.09	0.91	0.87	0.89	0.98
Cash ratio	0.70	0.49	0.38	0.38	0.40
Total debt/total equity (%)	51.62	49.19	40.47	35.46	29.56
Total debt/total asset (%)	34.04	32.97	28.81	26.18	22.82
<b>Working capital data and Ratios</b>					
Inventory turnover	10.50	11.94	12.02	12.80	12.82
Receivables turnover	16.71	14.88	12.97	13.85	13.87
Payables turnover	5.99	6.20	6.21	7.11	7.56
Days' inventory on hand	34.78	30.58	30.36	28.52	28.48
Days' of sales outstanding	21.84	24.54	28.15	26.35	26.32
Days' payables	60.96	58.87	58.75	51.34	48.26
Cash conversion cycle	-4.34	-3.75	-0.23	3.53	6.54

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (2011A-2015E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Property, plant and equipment	223,329	236,048	271,455	307,405	342,782
Construction in progress	34,384	61,142	64,199	67,409	70,780
Intangible assets	3,610	3,781	3,781	3,781	3,781
Other non-current assets	36,658	45,036	46,801	48,885	50,958
<b>Total non-current assets</b>	<b>297,981</b>	<b>346,007</b>	<b>386,236</b>	<b>427,480</b>	<b>468,301</b>
Inventories	12,939	15,171	15,077	16,221	17,551
Accounts and bills receivable	13,618	20,028	19,904	21,414	23,170
Prepaid expenses and other current assets	12,694	14,480	14,480	14,480	14,480
Cash and cash equivalents	61,652	51,627	34,640	34,624	32,824
Other current assets	7,623	10,054	10,054	10,054	10,054
<b>Current assets</b>	<b>108,526</b>	<b>111,360</b>	<b>94,155</b>	<b>96,793</b>	<b>98,080</b>
<b>Total assets</b>	<b>406,507</b>	<b>457,367</b>	<b>480,391</b>	<b>524,273</b>	<b>566,381</b>
Short-term borrowings and current portion of long-term borrowings	16,489	28,093	16,093	14,726	6,828
Accounts and bills payable	23,763	31,072	27,418	29,245	28,331
Accrued expenses and other payables	39,286	41,423	40,355	40,889	40,622
Current portion of long-term payables	271	283	277	280	279
Income tax payable	7,940	4,686	6,313	5,500	5,906
<b>Total current liabilities</b>	<b>87,749</b>	<b>105,557</b>	<b>90,455</b>	<b>90,639</b>	<b>81,965</b>
Long-term borrowings, less current portion	45,443	39,624	42,534	41,079	41,806
Long-term payables, less current portion	2,346	2,558	2,452	2,505	2,479
Other Non-current liabilities	2,855	3,071	2,963	3,017	2,990
<b>Total non-current liabilities</b>	<b>50,644</b>	<b>45,253</b>	<b>47,949</b>	<b>46,601</b>	<b>47,275</b>
<b>Total liabilities</b>	<b>138,393</b>	<b>150,810</b>	<b>138,404</b>	<b>137,240</b>	<b>129,240</b>
Total equity	268,114	306,557	341,987	387,033	437,141
Non-controlling interests	39,915	49,968	51,298	58,055	65,571
<b>Equity of the firm</b>	<b>228,199</b>	<b>256,589</b>	<b>290,689</b>	<b>328,978</b>	<b>371,570</b>
<b>Book value/share, RMB</b>	<b>11.47</b>	<b>12.90</b>	<b>14.62</b>	<b>16.54</b>	<b>18.68</b>

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2011A-2015E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Profit before income tax</b>	<b>66,849</b>	<b>68,011</b>	<b>63,515</b>	<b>73,278</b>	<b>81,038</b>
(Increase) decrease in inventories	(714)	(2,232)	94	(1,144)	(1,331)
Decrease in trade and bills receivables	(953)	(6,410)	124	(1,510)	(1,757)
Interest received	978	750	1,175	1,217	1,196
Interest paid	(3,300)	(3,554)	(3,313)	(3,321)	(3,317)
Income tax paid	(11,830)	(14,689)	(12,258)	(15,725)	(17,018)
Other adjusted items	19,919	27,179	16,535	25,716	24,394
<b>Net CF of Operating</b>	<b>70,949</b>	<b>69,055</b>	<b>65,872</b>	<b>78,511</b>	<b>83,206</b>
Capital expenditure	(45,082)	(52,256)	(54,869)	(57,612)	(60,493)
Acquisition of subsidiaries	(1,666)	(1,072)	(1,369)	(1,221)	(1,295)
Others	(8,507)	(8,602)	611	1,156	1,961
<b>Net cash used in investing activities</b>	<b>(55,255)</b>	<b>(61,930)</b>	<b>(55,627)</b>	<b>(57,677)</b>	<b>(59,827)</b>
Proceeds from borrowings	4,691	36,099	20,395	28,247	24,321
Repayments of borrowings	(21,184)	(34,534)	(27,859)	(31,197)	(29,528)
Cash flows from other financing	(14,840)	(18,718)	(19,771)	(17,903)	(19,976)
<b>Net cash from financing activities</b>	<b>(31,333)</b>	<b>(17,153)</b>	<b>(27,235)</b>	<b>(20,853)</b>	<b>(25,182)</b>
<b>Net change in cash</b>	<b>(15,639)</b>	<b>(10,028)</b>	<b>(16,990)</b>	<b>(19)</b>	<b>(1,803)</b>
Cash at the beginning	77,302	61,652	51,627	34,640	34,624
Exchange difference	(11)	3	3	3	3
<b>Cash at the end</b>	<b>61,652</b>	<b>51,627</b>	<b>34,640</b>	<b>34,624</b>	<b>32,824</b>

Source(s): Company, ABCI Securities estimates

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### 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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