

12 September 2012

Equity Focus

Key Data

Share price (HK\$)	29.1
Target price (HK\$)	34.5
Upside potential (%)	18.5
52Wk H/L(HK\$)	38/24.15
Issued shares (mn)	19,889.6
- H Shares (mn)	3,398.6
- A Shares (mn)	16,491.0
Market cap	
- H Shares (HK\$mn)	90,743
- A Shares (Rmbmn)	346,971
3-mth ave daily turnover (HK\$ mn)	437
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	(10.3)	(6.0)
3-mth	8.1	5.6
6-mth	(21.6)	(14.4)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst:

Mark Chen
Tel: (852) 2147 8819
Email: markchen@abci.com.hk

Previous report
Date: 6 September 2012
Rating - Buy

China Shenhua (1088 HK) – Buy

China Coal & Consumable Fuels Industry

Robust business performance in Aug

The operational performances of China Shenhua in Aug are satisfactory. Its total sales vol. of coal boomed up 29.1%YoY, with seaborne coal up 43.6%YoY, and shipping vol. rises up 21.9%YoY. All these indicate recovery of domestic demand in 2nd month of 3Q. We believe the recovery in FAI and restriction on coal output would support the coal industry in 3Q. We maintain our Buy rating.

China Shenhua's August operational data is satisfactory. Its total sales vol. of coal boomed up 29.1%YoY, with seaborne coal up 43.6%YoY, and shipping vol. rises up 21.9%YoY. Its shipment turnover improved by 11.9% YoY. All these indicate recovery of domestic demand in 2nd month of 3Q. We noticed its power output dispatch dropped by 2%YoY, however, is still higher than the national thermal power growth in Aug. (-6% YoY). We believe the recovery in FAI and restriction on coal output would lend support to the coal prices in 3Q. We remain our Buy rating.

Spot prices of coal remain stable. Not only Bohai-Rim thermal coal price edged up, but also the Qinhuangdao (QHD) spot thermal coal prices rose slightly to Rmb630/t on Sep. 5th.

Its H-share is trading at 11.1x 2012E PER and 1.82x 2012E PB. Supporting catalysts includes: 1) coal prices stabilize; 2) QHD coal inventory significantly reduced from June peak; 3) output constraint of small miners due to safety check; and 4) accelerating FAI projects approved by NDRC which might encourage the consumption of power, steel and cement in the near future.

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

Performance 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	48,439
Chg (%YoY)	28.3	17.6	-7.2	14.2
EPS (Rmb)	1.952	2.296	2.132	2.435
Chg (%YoY)	28.3	17.6	-7.2	14.2
P/E (x)	—	10.30	11.1	9.72
P/B (x)	—	2.08	1.82	1.60
Dividend yield (%)	—	3.8	3.53	4.03
ROAE (%)	20.7	21.2	17.53	17.53
Net debt/total equity (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: China Shenhua's major productive and operation data of Aug.

	Unit	2012 Aug.	2012 YTM Total	2011 Aug.	2011 YTM Total	Chg(%YoY) Aug.	Chg(%YoY) YTM Total
Commercial coal production	(Mn tonnes)	25.6	206.6	23.7	187.2	8.0	10.4
Coal sales	(Mn tonnes)	39.5	293.2	30.6	253.9	29.1	15.5
Of which: Export	(Mn tonnes)	0.2	2.6	0.5	4.1	-60.0	-36.6
Import	(Mn tonnes)	0.9	4.5	-	-	-	-
Transportation turnover of self-owned railways	(Bn tonne km)	14.3	115.1	13.6	107.8	5.1	6.8
Seaborne Coal	(Mn tonnes)	22.4	159.4	15.6	136.1	43.6	17.1
Seaborne coal at Huanghua Port	(Mn tonnes)	9.1	59.1	N/A	N/A	N/A	N/A
Seaborne coal at Shenhua Tianjin Coal Dock	(Mn tonnes)	3.4	17.3	N/A	N/A	N/A	N/A
Shipping volume	(Mn tonnes)	8.9	65.1	7.3	52.3	21.9	24.5
Shipment turnover	(Bn tonne nautical miles)	7.5	55.2	6.7	46.1	11.9	19.7
Gross power generation	(Bn kwh)	18.53	140.15	18.82	124.88	-1.5	12.2
Total power output dispatch	(Bn kwh)	17.18	130.37	17.53	116.47	-2.0	11.9

Source: Company data

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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 (~15%)

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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183