

Key Data

Share price (HK\$)	34.2
Target price (HK\$)	38.9
Upside potential (%)	13.7
52Wk H/L(HK\$)	36.45/24.15
Issued shares (mn)	19,890
- H Shares (mn)	3,399
- A Shares (mn)	16,491
Market cap	
- H Shares (HK\$m)	116,232
- A Shares (Rmbmn)	418,048
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

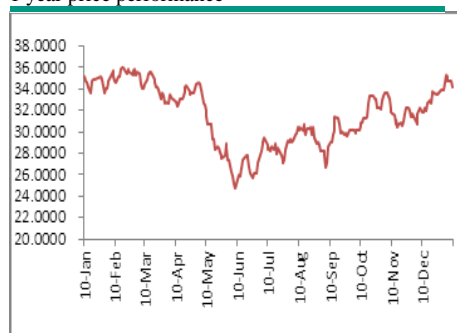
Share performance (%)

	Absolute	Relative*
1-mth	7.21	(0.28)
3-mth	10.86	(6.83)
6-mth	20.63	(5.26)

Source: Bloomberg

* Relative to HSCEI Index

1 year price performance



Source: Bloomberg

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Previous report
Date: 14 December, 2012
Rating - Buy

China Shenhua (1088 HK) – Buy China Coal & Consumable Fuels Industry

Reform on the way, positive on large providers

The NDRC decides not to provide guidance to the long-term contract prices and railway arrangement for thermal coal traders. Such liberalization provides more upside catalysts to large coal producers such as China Shenhua. Though Bohai-Rim steam coal prices are soft, we predict that the seasonal peak demand and restocking from IPPs will lend support to coal prices.

Sector reform on the way: The NDRC announced that: 1) Government won't give guidance on long-term contract thermal coal price. 2) Both coal producers and IPPs have to settle the railway arrangement by themselves, together with the Railway Ministry. 3) IPPs may raise their on-grid selling prices if the thermal coal price increases by 5% on a yearly basis. 4) The IPPs will bear 10% of the increase in coal prices instead of 30% in previous arrangement.

The potential impact:

1. Large thermal coal producers lead the sector. As per our channel check, the long-term contract prices of Shenhua are highly important as they have become benchmark for those relatively small coal producers.

2. Coal producers with railway system benefit from the reform. According to recent reform, the NDRC will not guide the transportation prices. This leaves more revenue generating opportunity for those coal providers with their own railway lines.

Valuation looks attractive. Shenhua's H-share is trading at HK\$34.2, or FY2013 PER of 9.8x and 2013E PB of 1.8x, but is still 13.7% lower than our target price. We maintain our rating.

Risk factors: 1) weaker-than-expected economic growth; 2) the influx of imported coal cap the domestic coal prices; 3) possible change of resources tax system or environment policies.

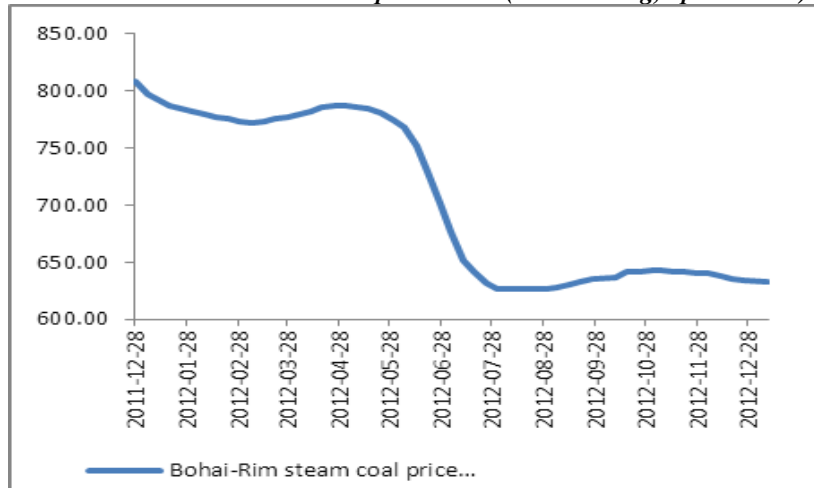
Forecast and Valuation

FY ended Dec 31	2010A	2011A	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)	—	12.0	11.2	9.8
P/B (x)	—	2.4	2.1	1.8
Dividend yield (%)	—	3.3	3.5	4.0
ROAE (%)	20.7	21.2	20.0	19.7

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

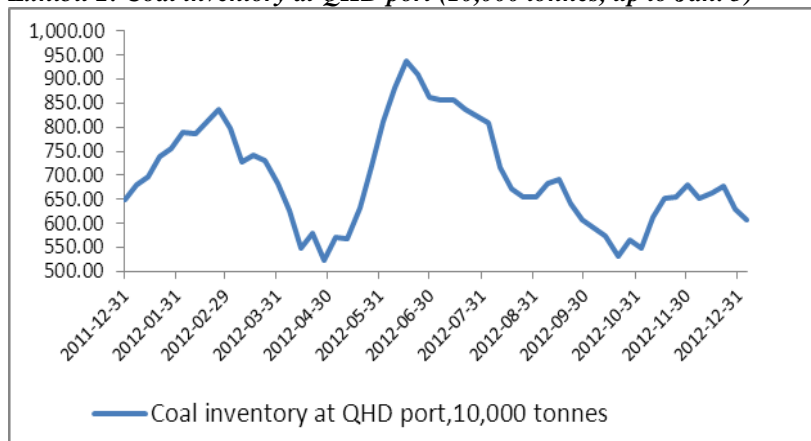


Exhibit 1: Bohai-Rim steam coal price index (5500 kcal/kg, up to Jan. 9)



Source: Wind, ABCI Securities

Exhibit 2: Coal inventory at QHD port (10,000 tonnes, up to Jan. 5)



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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