

Key Data

Share price (HK\$)	31.4
Target price (HK\$)	38.9
Upside potential (%)	23.9
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)	106.716
- A Shares (Rmbmn)	357.690
3-mth ave daily turnover (HK\$ mn)	456
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	(2.3)	(4.6)
3-mth	11.2	(1.4)
6-mth	14.8	(2.9)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Previous report
Date: 30 October 2012
Rating - Buy

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

Recent correction provide good buying opportunity

China Shenhua H-share price plunged as coal inventory in major ports was rising. We believe the market is over-reacted. We expect its sales performance in 4Q to improve during traditional peak season. The recent correction provides bargain hunting opportunity. We maintain our Buy rating on Shenhua with target price of HK\$38.9.

QHD coal inventory surged, thermal coal prices eased slightly. Bohai-Rim thermal coal price dropped Rmb1/ton to Rmb640/ton on Nov. 28, after the price had stabilized at Rmb641/ton for three consecutive weeks.

QHD coal inventory reached 6.41mn tonnes, up 20% from the bottom level of 5.3mn tonnes in late Oct. (but still 32% lower than the peak level of 9.38mnt in Jun.)

We do not expect the spot prices to turn worse because coal demand is in peak season. Although QHD coal inventory goes up, the inventory level is still at reasonable range. Unless the inventory climbs above 8mn tonnes, we will not worry over-supply situation.

Negative effect on China Shenhua is limited. However, as per our channel chat, the counter has not reduced its spot price in Oct. & Nov. Stabilized coal selling prices and increase in sales volume during peak season would support its sales performance in 4Q12.

The stock valuation looks attractive after recent price correction. Shenhua's H-share is trading at 9.0x 2013E PER and 1.7x 2013E PB. We maintain our rating and target price. The recent price correction enlarges the upside potential of the stock to 23.9%.

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.

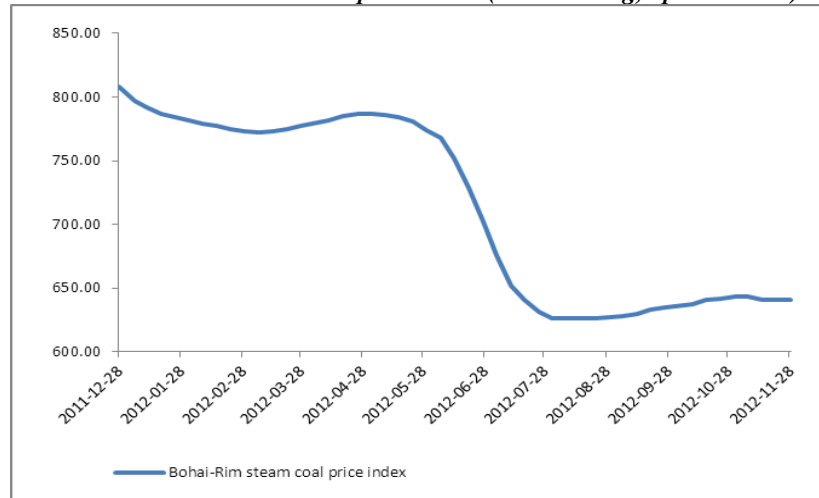
Performance and Valuation

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	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)	—	11.0	10.3	9.0
P/B (x)	—	2.2	1.9	1.6
Dividend yield (%)	—	3.6	3.8	4.4
ROAE (%)	20.7	21.2	20.0	19.7

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

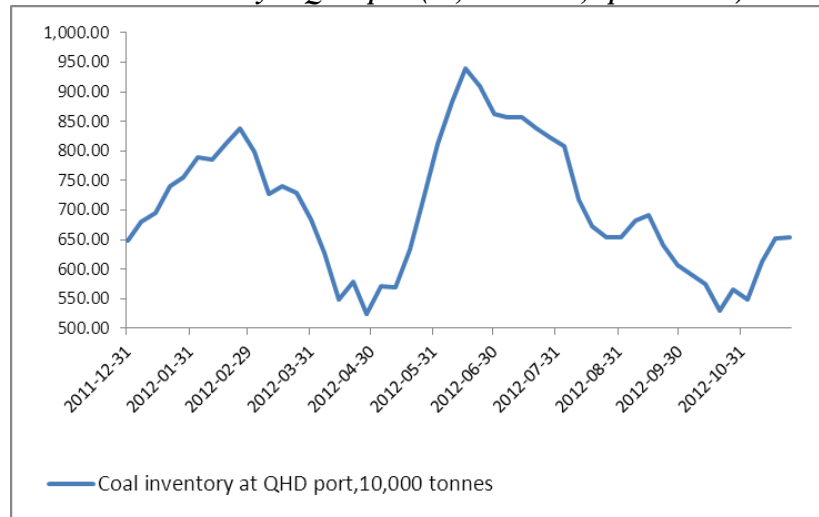


Exhibit: Bohai-Rim steam coal price index (5500 kcal/kg, up to Nov 29)



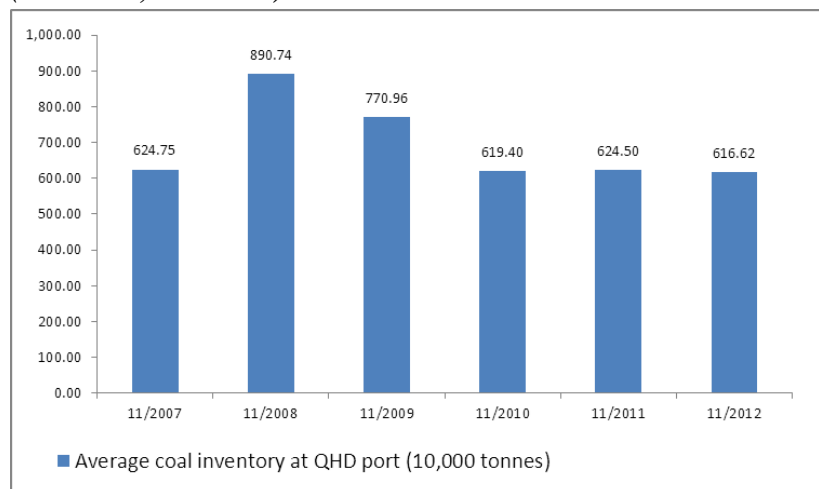
Source: Wind, ABCI Securities

Exhibit: Coal inventory at QHD port (10,000 tonnes, up to Nov 29)



Source: Wind, ABCI Securities

Exhibit: Monthly average coal inventory at QHD port for Nov. (2007~2012, 10k tonnes)



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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