

17 October 2012

Equity Focus

Key Data

Share price (HK\$)	31.45
Target price (HK\$)	34.5
Upside potential (%)	9.6
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\$m)	106.886
- A Shares (Rmbmn)	372,862
3-mth ave daily turnover (HK\$ mn)	422
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	(0.2)	(2.6)
3-mth	12.5	2.3
6-mth	(5.7)	(8.8)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Previous report
Date: 3 October 2012
Rating - Buy

China Shenhua (1088 HK) – Buy

China Coal & Consumable Fuels Industry

Slowed coal production and sales growth in September

China Shenhua posted MoM decline in coal output/sales and power output in Sep. The weak performance is in line with our expectation. Focus should be on the continued recovery of thermal coal prices in 4Q. The upcoming 3Q results might be disappointed due to tumble of coal prices in Jul. The pull back of stock price will provide buying opportunity. We have factored the negative issues in our model and maintain our Buy rating.

China Shenhua's September operational data alleviated. Its commercial coal production improved 7% YoY (or -5.1% MoM), with total sales vol. of coal up 12.6% YoY (or -7.1% MoM). Its seaborne coal was down 1.8% YoY (-1.8% MoM). Its power generation, down 5.3% YoY (or -16.5% MoM), and its power output dispatch, dropped by 5.4% YoY (or -16.0% MoM).

The performance is in line with our expectation on the after-peak season effect. Looking forward, we notice that China's PMI hit the bottom in Sep., indicating that the macro-economy is stabilizing. We believe the recovery in FAI and the coming seasonal peak will support the coal demand in 4Q.

Spot prices of coal keep improving. Bohai-Rim thermal coal price edged up to Rmb637/t by Oct. 10, the 6th consecutive week of improvement, and the Qinhuangdao (QHD) spot thermal coal prices rose slightly to Rmb640/t in the same week, the 2nd consecutive week increase.

Shenhua's H-share is trading at 10.5x 2013E PER and 1.73x 2013E PB. Supporting catalysts includes: 1) recovering coal prices; 2) significantly reduced QHD coal inventory; 3) recovery in FAI; and 4) the coming winter seasonal peak. **After factoring both negative factors behind Sep. performance and the catalysts, we remain our Buy rating.**

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)	—	11.1	12.0	10.5
P/B (x)	—	2.25	1.97	1.73
Dividend yield (%)	—	3.8	3.3	3.7
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 (assuming Rmb1.0=HK\$1.23)

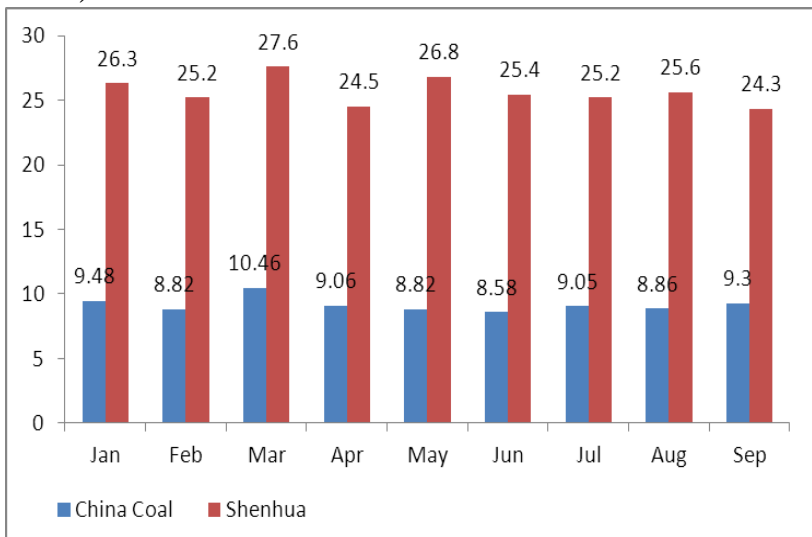


Exhibit 1: China Shenhua's major productive and operation data of Sep., 2012

	Unit	2012 Sep.	2012 YTM T total	2011 Sep.	2011 YTM T total	Chg(% Yo Y) Sep.	Chg(% Yo Y) YTM T total
Commercial coal production	(Mn tonnes)	24.3	230.9	22.7	209.9	7	10
Coal sales	(Mn tonnes)	36.7	329.9	32.6	286.5	12.6	15.1
Of which: Export	(Mn tonnes)	0.2	2.8	0.3	4.4	-33.3	-36.4
Import	(Mn tonnes)	1.2	5.7	-	-	N/A	N/A
Transportation turnover of self-owned railways	(Bn tonnekm)	14.4	129.5	13.2	121	9.1	7
Seaborne Coal	(Mn tonnes)	22	181.4	22.4	158.5	-1.8	14.4
Seaborne coal at Huanghua Port	(Mn tonnes)	8.1	67.2	N/A	N/A	N/A	N/A
Seaborne coal at Shenhua Tianjin Coal Dock	(Mn tonnes)	2.9	20.2	N/A	N/A	N/A	N/A
Shipping volume	(Mn tonnes)	8.5	73.6	7.2	59.5	18.1	23.7
Shipment turnover	(Bn tonne nautical miles)	7.1	62.3	6.5	52.6	9.2	18.4
Gross power generation	(Bn kwh)	15.48	155.63	16.34	141.22	-5.3	10.2
Total power output dispatch	(Bn kwh)	14.43	144.8	15.26	131.73	-5.4	9.9

Source: Company

Exhibit 2: Commercial coal production of China Shenhua (1088) and China Coal (1898) as of Sep., 2012 (mn tonnes)



Source: Company



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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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