



August 29, 2013
Equity Focus
Rating: BUY
TP: HK\$ 29.66

H-Share price (HK\$) 23.50
Est. share price return 26.23%
Est. dividend yield 5.15%
Est. total return 31.38%

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)	79,867
A-Shares (HK\$ mn)	283,976
3-mth avg daily turnover (HK\$ mn)	485.4
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	(2.29)	(0.04)
3-mth	1.95	(4.45)
6-mth	(12.48)	(7.59)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

China Shenhua (1088 HK)

3Q13 results in line with expectation; maintain BUY

- Shenhua's 3Q13 net profit dropped 11.53% YoY to RMB34,299mn, in line with market expectation (77% of market consensus at RMB 44,780mn for FY13E)
- Shenhua revised down its 2013E revenue and SG&A estimates by 5.4% and 33.1%. Assuming a 21.5% effective tax rate in FY14E, net profit will be RMB 49,292mn, similar to our previous estimate
- We believe that negative effect of on-grid power tariffs cuts will be offset partly by stabilizing coal price and increasing demand (for both thermal coal and thermal power) in 4Q13.
- With its low valuation at 7.53x FY14E P/E at present and the expectation of solid FY13E/14E EPS, we maintain **BUY** with TP at HK\$29.66, reflecting 9.5x FY14E P/E and 1.23x FY14E P/B

3Q13 results have been priced in. The Group posted a revenue of RMB 197,467mn in 9M13, up 10.71% yoy, reflecting the increase in coal sales volume and power output dispatch. Net profit attributed to shareholders was RMB 34,299mn, down 11.53% YoY, equivalent to 76.59% of the FY13E consensus of RMB 44,780mn. The reported gross profit margin of 29.78% is slightly lower than with our estimate (31.8%).

Shenhua revised down its 2013E revenue and SG&A estimates by 5.4% and 33.1%. Assuming an effective tax rate of 19.3% /21.5% in FY13E/14E, we estimate net profit will be RMB43,899 in FY13, 6.5% lower than previous estimate of RMB46,980mn, and RMB 49,292mn in FY14, similar to our previous estimate of RMB 49,278mn. Our revised EPS for FY13E/FY14E are RMB2.21/RMB2.48 (previous FY13E/14E estimates: RMB2.36/RMB2.48).

Negative effect from on-grid power tariffs cuts is limited. The Group reported on Sep 23 that on-grid electricity tariffs for coal fired generators would reduce FY13E net profit by about RMB 610mn (or 1.36% of FY13E net profit consensus). However, recent spot coal price rebounded from RMB 531/ton to RMB 533/ton, indicating an increasing demand in the 4Q peak season. We believe that spot coal prices will remain stable or even rebound mildly in the coming weeks. We believe adverse impacts resulted from the declined on-grid electricity tariffs will largely be offset.

Maintain BUY with TP at HK\$29.66. Shenhua is trading at 7.53x FY14E P/E. With the expected recovery in FY14E EPS and the potential price rise from spot coal market in 4Q13, we believe the counter is still undervalued. Maintain **BUY** with TP at HK\$29.66, reflecting 9.5x FY14E P/E (historical average: 12.0x) and 1.23x FY14E P/B (historical average: 2.2x).

Risk factors: 1) Further declines in coal prices; 2) Supply-demand imbalance; 3) Business cycles of downstream industries; 4) Surging costs.

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)		7.59	8.45	7.53	6.8
P/B (x)		1.45	1.28	1.13	1.0
DPS(RMB)	0.90	0.96	0.86	0.97	1.08
Yield (%)		5.15	4.62	5.19	5.78
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



9M13 Performance and Results Highlights

As at 30 September	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

9M13 Major operating data

As at 30 September	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



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	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)
Gross profit	80,587	82,506	77,100	85,837	92,749
SG&A	(11,056)	(12,950)	(11,907)	(10,948)	(10,067)
Other operating expenses, net	(825)	48	48	48	48
Profit from operations	68,706	69,604	65,241	74,937	82,730
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)
Net profit	52,808	57,046	51,256	57,552	64,020
Profit attributable to:					
Minority interests	6,962	8,188	7,357	8,261	9,189
Equity shareholders of the Company	45,846	48,858	43,899	49,292	54,831
EPS (Basic), RMB	2.31	2.46	2.21	2.48	2.76
Dividend per share, RMB	0.90	0.96	0.86	0.97	1.08

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
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
Total non-current assets	297,981	346,007	386,236	427,480	468,301
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
Current assets	108,526	111,360	94,155	96,793	98,080
Total assets	406,507	457,367	480,391	524,273	566,381
Short-term borrowings and current portion of long-term borrowings	(16,489)	(28,093)	(17,423)	(22,813)	(22,431)
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)
Total current liabilities	(87,749)	(105,557)	(91,785)	(98,726)	(97,569)
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)
Total non-current liabilities	(50,644)	(45,253)	(47,949)	(46,601)	(47,275)
Total liabilities	(138,393)	(150,810)	(139,734)	(145,327)	(144,843)
Total equity	268,114	306,557	340,657	378,946	421,538
Non-controlling interests	39,915	49,968	49,968	49,968	49,968
Equity of the firm	228,199	256,589	290,689	328,978	371,570
Book value/share, RMB	11.47	12.90	14.62	16.54	18.68

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before income tax	66,849	68,011	63,515	73,278	81,038
(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
Net CF of Operating	70,949	69,055	65,872	78,511	83,206
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
Net cash used in investing activities	(55,255)	(61,930)	(55,627)	(57,677)	(59,827)
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)
Net cash from financing activities	(31,333)	(17,153)	(27,235)	(20,853)	(25,182)
Net change in cash	(15,639)	(10,028)	(16,990)	(19)	(1,803)
Cash at the beginning	77,302	61,652	51,627	34,640	34,624
Exchange difference	(11)	3	3	3	3
Cash at the end	61,652	51,627	34,640	34,624	32,824

Source(s): Company, ABCI Securities estimates

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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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