



Company Report

China Shenhua (1088 HK) – Buy China Coal & Consumable Fuels Industry May 15, 2013

Rating: Buy
TP: HK\$33

Key Data

H-Share price (HK\$)	27.2
Upside potential (%)	21.3
52Wk H/L(HK\$)	35.45/24.15
Issued shares (mn)	19,890
- H Shares (mn)	3,399
- A Shares (mn)	16,491
Market cap	
- H Shares (HK\$m)	92,441
- A Shares (Rmb mn)	338,231
3-mth avg daily turnover (HK\$m)	559
Major shareholder (%):	
Shenhua Group Ltd.	73.01%

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY12 (%)

Coal, %	66.3
Power, %	28.4
Others, %	5.3
Sum, %	100.00

Source: Company, ABCI Securities

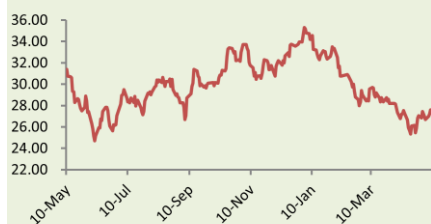
Share performance (%)

	Absolute	Relative*
1-mth performance	2.06	(3.61)
3-mth performance	(11.69)	(4.83)
6-mth performance	(10.67)	(18.84)

*Relative to HSCEI Index

Source: Bloomberg, ABCI Securities

1 year price performance



Source: Bloomberg

Analyst

Report Date: 15 May, 2013

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Resilient cost-efficient competitor will outperform

We believe the stabilized spot price and potential restocking for the peak season will trigger China Shenhua's performance, given its low unit cost of production and highly competitive logistic capacity among the peers. The group's power business makes it most defensive in the thermal coal sector. We maintain our Buy rating on the stock with TP unchanged.

Coal prices expected to be stabilized. The Bohai-Rim index stopped dropping on May 8th, and coal inventory at QHD port was reduced to the lowest level since Oct. 29, 2011, indicating that the weak coal price might hit bottom soon. Stabilized coal prices and reduced cost will support the group's mild EPS growth at about 1.5% YoY in FY13. The overall domestic ASP of the group dropped by 7.8% YoY in 1Q13, while Bohai-Rim steam coal price index dropped by 22% YoY by the end of March.

Efficient cost control and stable operational data. China Shenhua's unit cost of coal production was Rmb121.4/t in 1Q13, up 3.2% YoY but down 0.6% compared with FY12's full year average level. Its gross profit margin was 32.2% in 1Q13, consistent with 2012's performance and was 1.2ppt higher than our estimates. Its net profit slipped 1.2% YoY to Rmb11,625 in 1Q13, accounting for over 24% of FY13E market consensus and 23% of ABCI estimates. The management of the group announced earlier this year that they are determined to achieve the cost control.

Valuation. Considering China Shenhua's low cost of coal per tonne, large market share within the power business, and high double-digit ROAE for FY12 & FY13E, we maintain our Buy rating on the stock with TP at HK\$33. Our TP reflects FY13 forward PER of 10.5x.

Risk factors: 1) Coal price risk; 2) Imbalance of supply and demand; 3) Business cycles of downstream industries.

Performance and Valuation

FY ended Dec 31	2011A	2012E	2013E	2014E
Turnover (Rmb mn)	209,225	250,260	270,300	298,447
Chg (%.yoy)	32.7	19.6	8.0	10.4
Net Income (Rmb mn)	45,846	48,858	49,582	51,993
Chg (%.YoY)	18.1	6.57	1.5	4.9
EPS (Rmb)	2.31	2.46	2.49	2.61
Chg (%.YoY)	18.1	6.55	1.5	4.9
BVPS (Rmb)	11.5	12.9	14.8	16.9
Chg (%.yoy)	11.3	12.4	15.0	13.7
P/E (x)	-	8.8	8.6	8.2
P/B (x)	-	1.7	1.5	1.3
Dividend	0.90	0.96	0.97	1.02
Dividend yield (%)	-	4.8	5.1	5.6
ROAE (%)	21.16	20.16	17.97	16.49
ROAA (%)	11.78	11.31	10.50	10.21

Source: Company, Bloomberg, ABCI Securities estimates (assuming Rmb1.0=HK\$1.26)

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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Shenhua Energy Company Limited**Consolidated income statements forecast**

FY ended Dec 31 (Rmb mn)	1Q13	2010A	2011RS	2012E	2013E	2014E
Revenue	60,039	157,662	209,225	250,260	270,300	298,447
Coal revenue		106,080	138,263	165,989	175,760	189,147
Power revenue		44,800	61,204	71,096	80,310	93,588
Other revenues, Rmb mn		6,782	9,758	13,175	14,230	15,712
Cost of sales		(90,142)	(128,638)	(167,754)	(184,453)	(205,929)
Gross profit		67,520	80,587	82,506	85,847	92,519
SG&A		(9,219)	(11,056)	(12,950)	(15,168)	(17,767)
Other operating expenses, net		(776)	(825)	48	48	48
Profit from operations		57,525	68,706	69,604	70,727	74,800
Other income/cost/and loss		(1,583)	(1,857)	(1,593)	(1,726)	(1,659)
Pre-tax profit		55,942	66,849	68,011	69,001	73,141
Profits tax		(11,473)	(14,041)	(10,965)	(11,109)	(12,434)
Net profit		44,469	52,808	57,046	57,892	60,707
Minority interests		5,635	6,962	8,188	8,309	8,713
Equity shareholders of the Company	11,625	38,834	45,846	48,858	49,582	51,993
EPS (Basic), Rmb	0.584	1.95	2.31	2.46	2.49	2.61
Dividend per share, Rmb		0.75	0.90	0.96	0.97	1.02

Source: Company data, ABCI Securities estimates

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China Shenhua Energy Company Limited

Balance sheet forecast

FY ended Dec31 (Rmbmn)	2010A	2011RS	2012E	2013E	2014E
Property, plant and equipment	188,061	223,329	236,048	271,455	307,405
Construction in progress	33,088	34,384	61,142	64,199	67,409
Intangible assets	3,248	3,610	3,781	3,781	3,781
Other non-current assets	28,273	36,658	45,036	46,801	48,885
Total non-current assets	252,670	297,981	346,007	386,236	427,480
Inventories	11,574	12,939	15,171	16,064	17,288
Accounts and bills receivable	11,424	13,618	20,028	21,207	22,822
Prepaid expenses and other current assets	14,250	12,694	14,480	14,480	14,480
Cash and cash equivalents	77,912	61,652	51,627	38,985	39,718
Other current assets	4,301	7,623	10,054	10,054	10,054
Current assets	119,461	108,526	111,360	100,790	104,361
Total assets	372,131	406,507	457,367	487,026	531,842
Short-term borrowings and current portion of long-term borrowings	(15,317)	(16,489)	(28,093)	(19,644)	(23,869)
Accounts and bills payable	(19,661)	(23,763)	(31,072)	(27,418)	(29,245)
Accrued expenses and other payables	(36,893)	(39,286)	(41,423)	(40,355)	(40,889)
Current portion of long-term payables	(497)	(271)	(283)	(277)	(280)
Income tax payable	(4,558)	(7,940)	(4,686)	(6,313)	(5,500)
Total current liabilities	(76,926)	(87,749)	(105,557)	(94,006)	(99,782)
Long-term borrowings, less current portion	(52,311)	(45,443)	(39,624)	(42,534)	(41,079)
Long-term payables, less current portion	(2,133)	(2,346)	(2,558)	(2,452)	(2,505)
Other Non-current liabilities	(3,334)	(2,855)	(3,071)	(2,963)	(3,017)
Total non-current liabilities	(57,778)	(50,644)	(45,253)	(47,949)	(46,601)
Total liabilities	(134,704)	(138,393)	(150,810)	(141,955)	(146,382)
Total equity	237,427	268,114	306,557	345,072	385,459
Non-controlling interests	32,314	39,915	49,968	49,968	49,968
Equity of the firm	205,113	228,199	256,589	295,104	335,491
Book value/share, Rmb	10.31	11.47	12.90	14.84	16.87

Source: Company data, ABCI Securities estimates

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China Shenhua Energy Company Limited**Consolidated cash flow statements forecast**

FY ended Dec 31 (Rmb mn)	2010A	2011RS	2012A	2013E	2014E
Profit before income tax	55,942	66,849	68,011	69,001	73,141
DD&A	0	0	0	0	0
(Increase) decrease in inventories	(3,129)	(714)	(2,232)	(893)	(1,224)
Decrease in trade and bills receivables	(1,947)	(953)	(6,410)	(1,179)	(1,615)
Interest received	1,248	978	750	1,175	1,217
Interest paid	(3,760)	(3,300)	(3,554)	(3,313)	(3,321)
Income tax paid	(9,767)	(11,830)	(14,689)	(11,109)	(12,434)
Other adjusted items	19,986	19,919	27,179	16,535	25,716
Net CF of Operating	58,573	70,949	69,055	70,217	81,480
Capital expenditure	(30,538)	(45,082)	(52,256)	(54,869)	(57,612)
Acquisition of subsidiaries	473	(1,666)	(1,072)	(1,369)	(1,221)
Others	(1,067)	(8,507)	(8,602)	611	1,156
Net cash used in investing activities	(31,132)	(55,255)	(61,930)	(55,627)	(57,677)
Proceeds from borrowings	31,548	4,691	36,099	20,395	28,247
Repayments of borrowings	(42,225)	(21,184)	(34,534)	(27,859)	(31,197)
Cash flows from other financing	(11,871)	(14,840)	(18,718)	(19,771)	(20,124)
Net cash from financing activities	(22,548)	(31,333)	(17,153)	(27,235)	(23,074)
Net change in cash	4,893	(15,639)	(10,028)	(12,645)	730
Cash at the beginning	72,321	77,302	61,652	51,627	38,985
Exchange difference	(2)	(11)	3	3	3
Cash at the end	77,212	61,652	51,627	38,985	39,718

Source: Company data, 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

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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