



December 19, 2013  
Equity Focus  
Rating: BUY  
TP: HK\$ 30.0

H-Share price (HK\$) 24.50  
Est. share price return 22.45%  
Est. dividend yield 4.73%  
Est. total return 27.18%

Previous Rating & TP BUY; HK\$ 29.90  
Previous Report Date Nov. 13, 2013

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**Key Data**

52Wk H/L(HK\$)	35.45/18.1
Issued shares (mn)	19,890
H-Shares (mn)	3,399
A-Shares (mn)	16,491
Market cap	
H-shares (HK\$ mn)	83,265
A-Shares (HK\$ mn)	266,000
3-mth avg daily turnover (HK\$ mn)	459.3
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

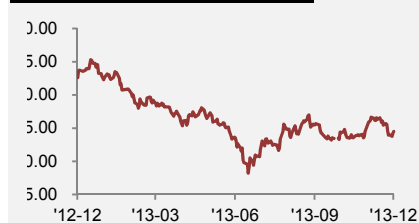
**Share performance (%)**

	Absolute	Relative*
1-mth	(5.41)	(1.85)
3-mth	(4.67)	(6.45)
6-mth	6.52	(7.85)

\*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg

## China Shenhua (1088 HK)

### 2013 coal sales to exceed target; maintain BUY

- Shenhua's latest operational data showed coal sales for 11M13 reached 462.3 mnt, almost reaching its full -year target of 464.6 mnt. We expect its FY13E coal sales to exceed target to reach ~518.5mnt.
- Bohai-Rim thermal coal prices reached RMB 622/t in its 10-week rebound. Accordingly, we revise up Shenhua's total sales for FY13E/14E.
- With its attractive valuation at 1.21x FY14E P/B at present and its increased FY13E/14E EPS, we maintain **BUY** with TP revised up to HK\$ 30, reflecting 9.1x FY14E P/E and 1.48x FY14E P/B

**Better-than-expected sales for 11M13.** Latest operational data showed that Shenhua's coal sale for 11M13 reached 462.3 mnt, which is ~ 99.5% of its FY13 target of 464.6 mnt. Since the peak season also covers Dec, we expect that final sales will exceed target to reach ~518.5mnt.

**Spot market prices favorable to the Group's FY14 long-term contract negotiation.** According to both the media and our sources, Shenhua has increased its spot prices in recent weeks. The Bohai-Rim thermal coal prices index advanced 2.3% to RMB 622/ton on Dec 18. The index has surged 17.35% since Oct. 9, the biggest gain since the data was published by WIND. The rebounding spot prices help alleviate some of the concerns on the Group's long-term contract negotiation for FY14. However, we noticed that Shenhua's seaborne coal sales retreated for the second month, indicating that its revenue surge may be slower than that of the increases in sales volume.

**Thermal power business expected to grow and serve as a buffer.** The Group's total installed capacity of power generators reached 41,798 MW by June 30, 2013, exceeding most of the Hong Kong-listed IPPs. The rebounded spot coal prices reduce the possibility of substantial cut in power tariff in FY14, as the Bohai-Rim prices index only edged down 2.51%YoY as of Dec 18, 2013, which is less than the tariff cut trigger established at 5% YoY decline. The expanded power business will reduce the downside risk of coal prices for the Group.

**Maintain BUY with TP revised up to HK\$30.0.** We revise up the Group's EPS for FY13E and FY14E by 5% and 4%, respectively, based on the latest development of the firm and the resilient price trend in the spot market. Shenhua is trading at 1.21x FY14E P/B. Considering its low unit cost, high ROE, and expanded transportation network and power business, we believe the counter is undervalued. Maintain **BUY** with TP revised up to HK\$30.0, reflecting 9.1x FY14E P/E and 1.48x FY14E P/B.

**Risk factors:** 1) Further declines in coal prices and electricity tariffs; 2) Supply-demand imbalance; 3) Business cycles of downstream industries; 4) Surging costs; 5) FY13E DPS may drop.

### Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	209,225	250,260	259,058	286,232	309,229
Chg (% YoY)	32.70	19.61	3.52	10.49	8.03
Net Profit (RMB mn)	45,846	48,858	46,117	51,239	56,937
Chg (% YoY)	18.06	6.57	(5.61)	11.11	11.12
EPS (RMB)	2.31	2.46	2.32	2.58	2.86
Chg (% YoY)	18.08	6.55	(5.59)	11.11	11.12
BVPS (RMB)	11.47	12.90	14.31	15.88	17.63
Chg (% YoY)	11.26	12.44	10.95	10.96	10.98
P/E (x)		7.79	8.26	7.43	6.69
P/B (x)		1.48	1.34	1.21	1.09
DPS(RMB)	0.90	0.96	0.91	1.01	1.12
Yield (%)		5.02	4.73	5.26	5.84
ROE (%)	21.16	20.16	17.04	17.06	17.09
ROA (%)	11.78	11.31	9.91	10.43	10.84

Source(s): Bloomberg, ABCI Securities estimates



**Exhibit: China Shenhua's operational indicators**

Operational Indicators	2013	2013	2012R	2012R	YoY Chg,%	YoY_Chg,%	2013
	Nov	YTM	Nov	YTM	Nov	YTM	MoM,%
Commercial coal production (mnt)	26.8	290.9	24.2	279	10.7	4.3	(1.83)
Coal sales (mnt)	49.3	462.3	41.8	412.4	17.9	12.1	5.57
Of which: Export (mnt)	0.2	2.4	0.2	3.1	0	-22.6	(33.33)
Import (mnt)	3	12.9	2.3	8.8	30.4	46.6	20.00
Transportation turnover of self-owned railways (Bn tonne kilometers)	18.9	192.7	15.6	160.3	21.2	20.2	1.61
Seaborne Coal (mnt)	20.7	203.8	15.7	181	31.8	12.6	(4.61)
Seaborne coal at Huanghua Port (mnt)	11.3	115.1	8.6	84.9	31.4	35.6	(0.88)
Seaborne coal at Shenhua Tianjin Coal Dock (mnt)	2.7	28.2	2.4	25.5	12.5	10.6	0.00
Shipping volume (mnt)	10.4	106.4	8.2	89.3	26.8	19.1	(17.46)
Shipment turnover (Bn tonne nautical miles)	9.2	103.8	6.9	75.3	33.3	37.8	(28.68)
Gross power generation (Bn kwh)	18.05	205.89	16.73	188.59	7.9	9.2	(1.63)
Total power output dispatch (Bn kwh)	16.85	191.98	15.54	175.39	8.4	9.5	(1.58)

Source(s): Company, ABCI Securities

**Financial Ratios (2011A-2015E)**

FY Ended Dec 31	2011A	2012A	2013E	2014E	2015E
<b>Profitability ratio (%)</b>					
Gross profit margin	38.52	32.97	31.00	31.00	31.00
EBT margin	31.95	27.18	25.76	26.61	27.21
Net profit margin	21.91	19.52	17.80	17.90	18.41
ROA	11.78	11.31	9.91	10.43	10.84
ROE	21.16	20.16	17.04	17.06	17.09
<b>Cost ratio (%)</b>					
Admin/Sales	5.28	5.17	4.60	3.83	3.26
Effective tax rate	21.00	16.12	19.30	21.46	21.00
<b>Leverage (x)</b>					
Current ratio	1.24	1.05	1.07	1.11	1.27
Quick ratio	1.09	0.91	0.90	0.93	1.05
Cash ratio	0.70	0.49	0.41	0.43	0.47
Total debt/total equity (%)	51.62	49.19	41.32	36.93	31.33
Total debt/total asset (%)	34.04	32.97	29.24	26.97	23.86
<b>Working capital data and Ratios</b>					
Inventory turnover	10.50	11.94	11.81	12.61	12.63
Receivables turnover	16.71	14.88	12.97	13.85	13.87
Payables turnover	5.99	6.20	6.11	7.01	7.46
Days' inventory on hand	34.78	30.58	30.90	28.94	28.90
Days' of sales outstanding	21.84	24.54	28.14	26.36	26.32
Days' payables	60.96	58.87	59.74	52.06	48.94
Cash conversion cycle	(4.34)	(3.75)	(0.70)	3.25	6.28

Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2011A-2015E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Revenue	209,225	250,260	259,058	286,232	309,229
Coal revenue	138,263	165,989	165,110	177,575	192,096
Power revenue	61,204	71,096	80,310	93,588	100,854
Other revenues	9,758	13,175	13,638	15,069	16,279
Cost of sales	(128,638)	(167,754)	(178,750)	(197,500)	(213,368)
<b>Gross profit</b>	<b>80,587</b>	<b>82,506</b>	<b>80,308</b>	<b>88,732</b>	<b>95,861</b>
SG&A	(11,056)	(12,950)	(11,907)	(10,948)	(10,067)
Other operating expenses, net	(825)	48	48	48	48
<b>Profit from operations</b>	<b>68,706</b>	<b>69,604</b>	<b>68,449</b>	<b>77,832</b>	<b>85,842</b>
Other income/cost/and loss	(1,857)	(1,593)	(1,726)	(1,659)	(1,692)
Pre-tax profit	66,849	68,011	66,723	76,173	84,150
Profits tax	(14,041)	(10,965)	(12,878)	(16,347)	(17,672)
<b>Net profit</b>	<b>52,808</b>	<b>57,046</b>	<b>53,845</b>	<b>59,826</b>	<b>66,479</b>
<b>Profit attributable to:</b>					
Minority interests	6,962	8,188	7,729	8,587	9,542
<b>Equity shareholders of the Company</b>	<b>45,846</b>	<b>48,858</b>	<b>46,117</b>	<b>51,239</b>	<b>56,937</b>
<b>EPS (Basic), RMB</b>	<b>2.31</b>	<b>2.46</b>	<b>2.32</b>	<b>2.58</b>	<b>2.86</b>
<b>Dividend per share, RMB</b>	<b>0.90</b>	<b>0.96</b>	<b>0.91</b>	<b>1.01</b>	<b>1.12</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2011A-2015E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Property, plant and equipment	223,329	236,048	261,800	288,020	312,397
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
<b>Total non-current assets</b>	<b>297,981</b>	<b>346,007</b>	<b>376,581</b>	<b>408,096</b>	<b>437,916</b>
Inventories	12,939	15,171	15,091	16,230	17,557
Accounts and bills receivable	13,618	20,028	19,922	21,426	23,178
Prepaid expenses and other current assets	12,694	14,480	14,480	14,480	14,480
Cash and cash equivalents	61,652	51,627	37,197	38,599	38,505
Other current assets	7,623	10,054	10,054	10,054	10,054
<b>Current assets</b>	<b>108,526</b>	<b>111,360</b>	<b>96,744</b>	<b>100,789</b>	<b>103,774</b>
<b>Total assets</b>	<b>406,507</b>	<b>457,367</b>	<b>473,325</b>	<b>508,884</b>	<b>541,690</b>
Short-term borrowings and current portion of long-term borrowings	(16,489)	(28,093)	(16,093)	(14,726)	(6,828)
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)
<b>Total current liabilities</b>	<b>(87,749)</b>	<b>(105,557)</b>	<b>(90,455)</b>	<b>(90,639)</b>	<b>(81,965)</b>
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)
<b>Total non-current liabilities</b>	<b>(50,644)</b>	<b>(45,253)</b>	<b>(47,949)</b>	<b>(46,601)</b>	<b>(47,275)</b>
<b>Total liabilities</b>	<b>(138,393)</b>	<b>(150,810)</b>	<b>(138,404)</b>	<b>(137,240)</b>	<b>(129,240)</b>
Total equity	268,114	306,557	334,921	371,644	412,451
Non-controlling interests	39,915	49,968	50,238	55,747	61,868
<b>Equity of the firm</b>	<b>228,199</b>	<b>256,589</b>	<b>284,683</b>	<b>315,898</b>	<b>350,583</b>
<b>Book value/share, RMB</b>	<b>11.47</b>	<b>12.90</b>	<b>14.31</b>	<b>15.88</b>	<b>17.63</b>

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2011A-2015E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Profit before income tax</b>	<b>66,849</b>	<b>68,011</b>	<b>66,723</b>	<b>76,173</b>	<b>84,150</b>
(Increase) decrease in inventories	(714)	(2,232)	80	(1,139)	(1,327)
Decrease in trade and bills receivables	(953)	(6,410)	106	(1,504)	(1,752)
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)	(12,878)	(16,347)	(17,672)
Other adjusted items	19,919	27,179	16,535	25,716	24,394
<b>Net CF of Operating</b>	<b>70,949</b>	<b>69,055</b>	<b>68,429</b>	<b>80,795</b>	<b>85,673</b>
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
<b>Net cash used in investing activities</b>	<b>(55,255)</b>	<b>(61,930)</b>	<b>(55,627)</b>	<b>(57,677)</b>	<b>(59,827)</b>
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)	(18,770)	(20,736)
<b>Net cash from financing activities</b>	<b>(31,333)</b>	<b>(17,153)</b>	<b>(27,235)</b>	<b>(21,719)</b>	<b>(25,943)</b>
<b>Net change in cash</b>	<b>(15,639)</b>	<b>(10,028)</b>	<b>(14,433)</b>	<b>1,399</b>	<b>(97)</b>
Cash at the beginning	77,302	61,652	51,627	37,197	38,599
Exchange difference	(11)	3	3	3	3
<b>Cash at the end</b>	<b>61,652</b>	<b>51,627</b>	<b>37,197</b>	<b>38,599</b>	<b>38,505</b>

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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