

Key Data

Share price (HK\$)	38.9
Target price (HK\$)	33.05
Upside potential (%)	17.7
52Wk H/L(HK\$)	36.45/24.15
Issued shares (mn)	19,890
- H Shares (mn)	3,399
- A Shares (mn)	16,491
Market cap	
- H Shares (HK\$m)	112,323
- A Shares (Rmbmn)	402,216
3-mth ave daily turnover (HK\$ mn)	474
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	(1.9)	(10.5)
3-mth	(0.9)	(14.4)
6-mth	18.9	(12.7)

Source: Bloomberg

* Relative to HSCEI Index

1 year price performance



Source: Bloomberg

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Previous report
Date: 10 Jan, 2013
Rating - Buy

China Shenhua (1088 HK) – Buy

China Coal & Consumable Fuels Industry

December 2012 output indicates a positive recovery

Its latest operating data beats the company's guidance and is better than our expectations. Moreover, its coal and power businesses rebounded in two consecutive months. Adversely affected by the policy risk, its H-share underperformed the market in 1-mth & 3-mths. The policy risk will diminish when its long-term contract coal prices with IPPs are settled in Q1. Stock price will have a turn by that time.

Sales volume rebounded in two consecutive months: Its coal production volume edged up 3.3%MoM in Dec and its coal sales volume surged 24.9%MoM in Dec. Sales volume rebounded in two consecutive months after it tumbled in Sep and Oct. Besides, its power output dispatch also rebounded 16.3%MoM in Dec. The business recovery appeared not only in upstream coal business but also in the downstream power business. Its pace of recovery in late 2012 was in line with the economic cycle in China.

The coal sales vol. was ahead of our expectation by 10.6%, but the power output was 3% below our expectation. As Shenhua will finalize its long-term contracts with IPPs in 2013 soon, the contract prices will be a swing factor to the stock price in the short-term.

Adversely affected by policy: The counter underperformed the market in 1-mth and 3-mth horizon due to uncertainty on the price movement after the liberalization of coal pricing mechanism, although the macro-economy and its two main businesses showed improvements in Q4FY12. We expect this policy risk to diminish when its long-term contract price with IPPs in 2013 is settled in Q1FY13.

Risk factors: 1) weaker-than-expected economic growth; 2) the influx of imported coal cap the domestic coal prices; 3) possible change of resources tax system or environment policies; 4) policy risk on coal pricing mechanism

Forecast and Valuation

FY ended Dec 31	2010A	2011A	2012F	2013F
Turnover (Rmb mn)	157,662	208,197	237,392	272,070
Net Income (Rmb mn)	38,834	45,677	48,923	55,918
Chg (% YoY)	28.3	17.6	7.1	14.3
EPS (Rmb)	1.95	2.30	2.46	2.81
Chg (% YoY)	28.3	17.6	7.1	14.3
P/E (x)	—	11.5	10.8	9.4
P/B (x)	—	2.3	2.0	1.7
Dividend yield (%)	—	3.4	3.6	4.2
ROAE (%)	20.7	21.2	20.0	19.7

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

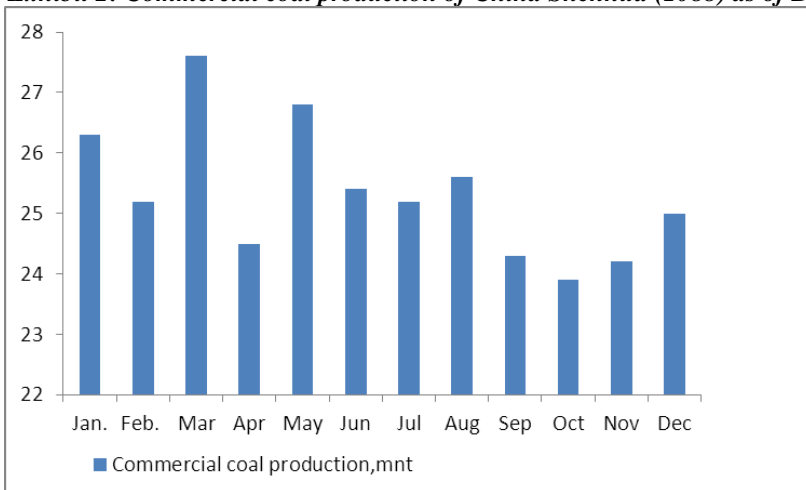


Exhibit 1: China Shenhua's major productive and operation data of Dec., 2012

	Unit	2012	2012	2011	2011	Chg(% YoY)	Chg(% YoY)
		Dec.	YTM Total	Dec.	YTM Total	Dec.	YTM Total
Commercial coal production	(Mn tonnes)	25	304.00	24.6	281.9	1.6	7.8
Coal sales	(Mn tonnes)	52.2	464.40	38.2	387.5	36.6	19.8
Of which: Export	(Mn tonnes)	0.2	3.30	0.5	5.6	(60.0)	(41.1)
Import	(Mn tonnes)	1.9	10.70	-	-	N/A	N/A
Transportation turnover of self-owned railways	(Bn tonne km)	15.9	176.20	13.9	162.3	14.4	8.6
Seaborne Coal	(Mn tonnes)	30.9	262.20	19.7	210.1	56.9	24.8
Seaborne coal at Huanghua Port	(Mn tonnes)	10.7	95.60	N/A	N/A	N/A	N/A
Seaborne coal at Shenhua Tianjin Coal Dock	(Mn tonnes)	3.3	28.80	N/A	N/A	N/A	N/A
Shipping volume	(Mn tonnes)	8.4	97.70	7.2	80.6	16.7	21.2
Shipment turnover	(Bn tonne nautical miles)	7.2	82.50	6.2	71.5	16.1	15.4
Gross power generation	(Bn kwh)	19.3	207.90	15.98	188.35	20.8	10.4
Total power output dispatch	(Bn kwh)	18.1	193.46	14.88	175.61	21.4	10.2

Source: Company

Exhibit 2: Commercial coal production of China Shenhua (1088) as of Dec., 2012 (mn tonnes)



Source: Company

Exhibit : Commercial coal production of China Shenhua (1088) as of Dec., 2012 (mn tonnes)

	Actual	Our Expectations	Variance	Company's Guidance	Variance
Coal sales volume(mnt)	464.4	420	+10.6%	410.5	13.1%
Power output dispatch (bnkwh)	193.46	199.6	-3.1%	199.6	-3.1%

Source: 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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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