

Key Data

Share price (HK\$)	30.4
52Wk H/L(HK\$)	38.0/ 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\$mn)	103,317
- A Shares (Rmbmn)	374,015
30-day avg vol (HK\$mn)	482.3
Major shareholder (%):	
Shenhua Group Corp Ltd	72.96

Source: Company, Bloomberg, ABCI Securities

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	5.7	4.4
3-mth	(3.2)	(1.2)
6-mth	(13.6)	(9.1)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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China Shenhua (1088 HK) – Unrated
China Coal & Consumable Fuels Industry

Coal price stabilized amid mixed expectations

Domestic and international coal prices stabilized this week due to: 1) demand recovery in thermal power industry; 2) supply interruption on bad weather in some provinces; and 3) reduction on miners' output. In view of the change of competitive landscape, large players will benefit.

Coal prices stabilized. As expected, coal prices have stabilized in early August. We identify three major factors lending support to coal prices.

Firstly, Demand for thermal power increases in summer peak season. China's State Electricity Regulatory Commission (SERC) reports that July recorded 453,690 GWh power generation, up 6.7% YoY, or 15.3% MoM. Due to high temperature, peak electricity reached 15,200 GWh (July 11), 0.77% higher than last year (July 26, 2011). Power load in 3 regional and 7 provincial grids reached record high.

Secondly, bad weather in some provinces has adversely affected the coal transportation. Heavy rainfall in northern China has interrupted the supply. Coal inventory of major national thermal power producers dropped 6.1% MoM at July 31.

Thirdly, price drop in 2Q has caused many small & medium-sized coal miners to cease or reduce production, especially coal miners in Inner Mongolia and Shaanxi.

We prefer large coal producers with strong logistic support. The decline in coal prices in Q2 has caused some inefficient miners to scale down output. We anticipate their market shares will be displaced by large & efficient miners such as Shenhua. Its strong logistic operation is the edge of the business.

Risk factors: 1) the influx of foreign coal cap the rebound momentum of domestic coal prices; 2) weak power consumption growth on slowed economic growth.

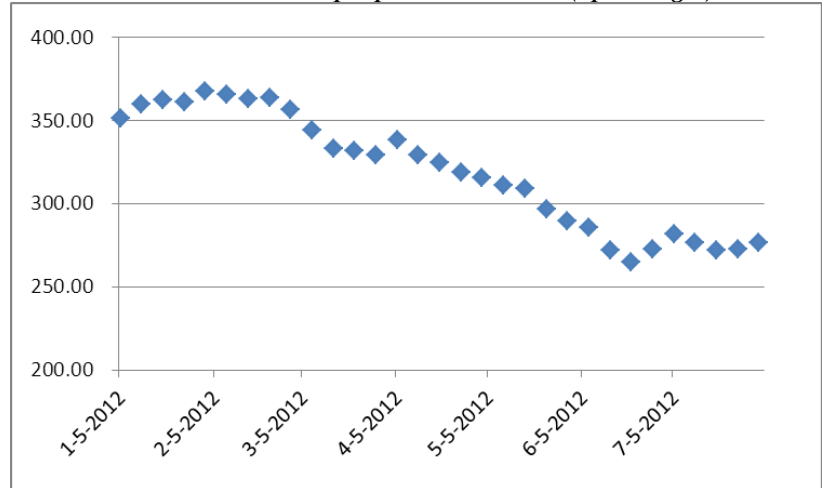
Performance and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Turnover (Rmb mn)	80,275	104,416	117,526	157,662	208,197
Net Income (Rmb mn)	20,497	25,959	30,276	38,834	45,677
Chg (% YoY)	16.2	26.6	16.6	28.3	17.6
EPS (Rmb)	1.11	1.31	1.522	1.952	2.296
Chg (% YoY)	13.4	18.0	16.6	28.3	17.6
P/E (x)	—	—	—	—	10.2
P/B (x)	—	—	—	—	2.1
Dividend yield (%)	—	—	—	—	3.8
ROAE (%)	20.4	18.7	19.2	20.7	21.2
Net debt/total equity (%)	4.3	8.8	1.8	Net Cash	Net Cash

Source: Company, Bloomberg, ABCI Securities estimates

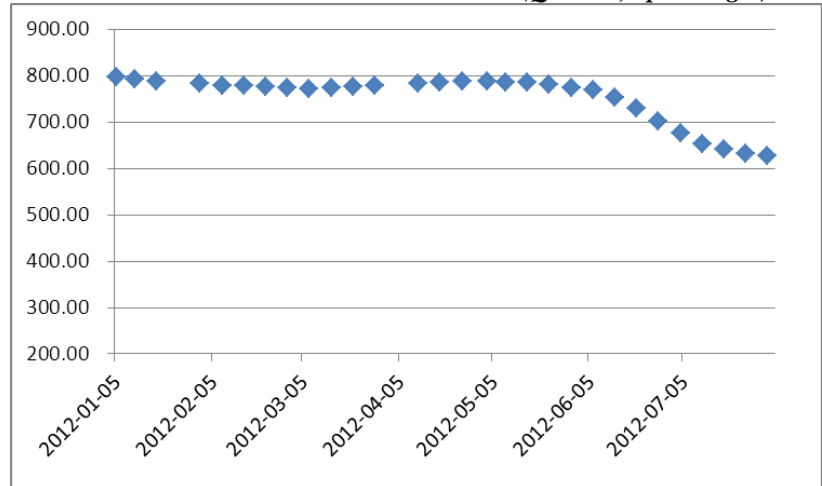


Exhibit 1: Australia BJ coal spot price index trend (up to Aug 2)



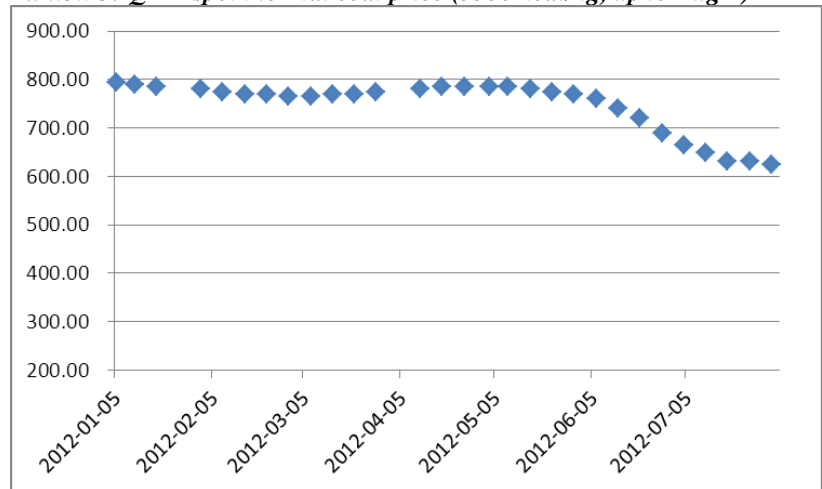
Source: WIND, ABCI Securities

Exhibit 2: China Bohai-Rim steam coal index (Q5500K, up to Aug 1)



Source: WIND, ABCI Securities

Exhibit 3: QHD spot thermal coal price (5500 kcal/kg, up to Aug 1)



Source: WIND, ABCI Securities



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