



August 27, 2013
Company Report
Rating: BUY
TP: HK\$ 29.66

H-Share price (HK\$) 25.35
Est. share price return 17.00%
Est. dividend yield 4.59%
Est. total return 21.59%

Previous Rating & TP BUY; HK\$ 27.0
Previous Report Date July 10, 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)	86,154
A-Shares(HK\$ mn)	283,976
3-mth avg daily turnover (HK\$ mn)	504.8
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	11.43	8.15
3-mth	(2.69)	3.62
6-mth	(10.58)	(0.99)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

China Shenhua (1088 HK)
Resilient 1H13 results and positive 2H outlook;
maintain BUY

- China Shenhua's 1H13 results were better than expected, with revenue rising 4.7 YoY (49% of FY13E of market consensus at RMB 2588.99mn) and net profit dropped by 7.0% YoY (market consensus: -7.9% YoY)
- Profit contribution from power and transportation segments improved on increased capacity
- Unit cost of power output dispatch dropped 6.5% YoY to RMB 274.5 /MWh, and unit transportation cost dropped from 12.9 RMB/tons km in 1H12 to 10.2 RMB/tons km in 1H13. Management will further trim cost in 2H13
- With its low valuation at 8.12x FY14E P/E at present and the expectation of solid FY13E/14E EPS, we maintain BUY with TP at HK\$29.66 (previous: HK\$27.0), reflecting 9.5x FY14E P/E

1H13 results are better than expected. China Shenhua's 1H13 revenue was RMB 127,226mn, up 4.7%YoY and represented 49% of the FY13E market consensus of RMB2588.99mn. Its net profit dropped by only 7.0% YoY (market consensus: down 7.9% for FY13E) to RMB 24,867mn. Performance of the Group's power and transportation segments improved, with GPM of power segment up from 20.2% in 1H12 to 25.2% in 1H13; GPM of transportation segment was up from 41.4% in 1H12 to 47.2% in 1H13. Management expected further improvement in FY14 with the increased transportation capacity and potential asset injection from the parent company.

Increased contribution from power and transportation business segments. The Group's power business and transportation system expanded quickly, which in turn help alleviate the weak demand from thermal coal market. As at 1H13, the total installed capacity of power generators within the power segment reached 41,798 MW, up 122.4% from the beginning of 2009. The Group's total power dispatch reached 98.31bn kwh, up 2.8% YoY, and the transportation turnover of self-owned railway was up 16.9% YoY to 101.7 bn tons km.

Stringent control over costs. The Group's unit cost of power output dispatch dropped 6.5% YoY to RMB 274.5 /MWh in 1H13, and unit transportation cost (ports) dropped from 12.9 RMB/tons km in 1H12 to 10.2 RMB/tons km in 1H13. The unit production cost of coal was 124.2 RMB/t, only up 6.6% YoY (management target for FY13 was within 10%). Management will further trim cost in 2H13.

Maintain BUY. The stock is trading at 8.12x FY14E P/E. With the high FY14E EPS and the potential asset injection in 2H13, we believe the counter is still undervalued. Maintain BUY with TP at HK\$29.66, reflecting 9.5x FY14E P/E.

Results and Valuation

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Revenue (RMB mn)	157,662	209,225	250,260	258,899	286,124
Chg (% YoY)		32.70	19.61	3.45	10.52
Net Profit (RMB mn)	38,834	45,846	48,858	46,980	49,278
Chg (% YoY)		18.06	6.57	(3.84)	4.89
EPS (RMB)	1.95	2.31	2.46	2.36	2.48
Chg (% YoY)		22.45	18.08	(3.83)	4.89
BVPS (RMB)	10.31	11.47	12.90	14.74	16.66
Chg (% YoY)		11.26	12.44	14.22	13.06
P/E (x)		8.73	8.19	8.52	8.12
P/B (x)		1.75	1.56	1.37	1.21
DPS(RMB)	0.75	0.90	0.96	0.92	0.97
Yield (%)		4.47	4.77	4.59	4.81
ROE (%)	20.67	21.16	20.16	17.09	15.78
ROA (%)		11.78	11.31	9.98	9.75

Source(s): Bloomberg, ABCI estimates



Consolidated income statement (2010A-2014E)

FY Ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Revenue	157,662	209,225	250,260	258,899	286,124
Coal revenue	106,080	138,263	165,989	164,958	177,473
Power revenue	44,800	61,204	71,096	80,310	93,588
Other revenues	6,782	9,758	13,175	13,630	15,063
Cost of sales	(90,142)	(128,638)	(167,754)	(176,672)	(197,426)
Gross profit	67,520	80,587	82,506	82,226	88,699
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	67,106	70,980
Other income/cost/and loss	(1,583)	(1,857)	(1,593)	(1,726)	(1,659)
Pre-tax profit	55,942	66,849	68,011	65,380	69,321
Profits tax	(11,473)	(14,041)	(10,965)	(10,526)	(11,784)
Net profit	44,469	52,808	57,046	54,854	57,536
Profit attributable to:					
Minority interests	5,635	6,962	8,188	7,873	8,258
Equity shareholders of the Company	38,834	45,846	48,858	46,980	49,278
EPS (Basic), RMB	1.95	2.31	2.46	2.36	2.48
Dividend per share, RMB	0.75	0.90	0.96	0.92	0.97

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2010A-2014E)

As of Dec 31 (RMB mn)	2010A	2011A	2012A	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	15,077	16,221
Accounts and bills receivable	11,424	13,618	20,028	19,904	21,414
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	38,237	37,001
Other current assets	4,301	7,623	10,054	10,054	10,054
Current assets	119,461	108,526	111,360	97,752	99,169
Total assets	372,131	406,507	457,367	483,988	526,650
Short-term borrowings and current portion of long-term borrowings	(15,317)	(16,489)	(28,093)	(18,627)	(22,808)
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)	(92,989)	(98,721)
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)	(140,938)	(145,322)
Total equity	237,427	268,114	306,557	343,050	381,328
Non-controlling interests	32,314	39,915	49,968	49,968	49,968
Equity of the firm	205,113	228,199	256,589	293,082	331,360
Book value/share, RMB	10.31	11.47	12.90	14.74	16.66

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Profit before income tax	55,942	66,849	68,011	65,380	69,321
(Increase) decrease in inventories	(3,129)	(714)	(2,232)	94	(1,144)
Decrease in trade and bills receivables	(1,947)	(953)	(6,410)	124	(1,510)
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)	(10,526)	(11,784)
Other adjusted items	19,986	19,919	27,179	16,535	25,716
Net CF of Operating	58,573	70,949	69,055	69,469	78,494
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)	(19,107)
Net cash from financing activities	(22,548)	(31,333)	(17,153)	(27,235)	(22,057)
Net change in cash	4,893	(15,639)	(10,028)	(13,393)	(1,239)
Cash at the beginning	72,321	77,302	61,652	51,627	38,237
Exchange difference	(2)	(11)	3	3	3
Cash at the end	77,212	61,652	51,627	38,237	37,001

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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