

**Company Rating:**

**Buy**

**Target Price: \$33.0**

## China Shenhua (1088 HK) – Buy

### China Coal & Consumable Fuels Industry

#### Major operation 1Q2013 data consistent with year goal

China Shenhua's 1Q2013 operating data largely meet its 2013 target, with self-produced coal edged 1.0%YoY to 79.9mnt, about 25.3% of its 315mnt target this year. Though spot coal prices are still weak, higher spot market volume compared with FY12 help to alleviate the negative effect. Recent price adjustment has provided a good chance of entering. We maintain our Buy rating on the stock with TP unchanged.

**Sales volume almost meets the target.** China Shenhua's total coal sales edged up 2.8% YoY to 111.5mnt, about 24% of its 2013 target. Considering the traditional weak performance of Feb., its 1Q2013 selling volume was satisfactory. One concern comes from its total power output dispatch, 47.03 bnkwh in 1Q2013, which met only 23% of the 2013 target. The indicator is consistent with the slower-than-expected GDP growth of China in 1Q2013.

**The Bohai-Rim steam coal price index was still weak and dropped to its record low of Rmb615/t on Apr. 17.** The downside risk of the price is limited at present level because some of the high-cost coal mines will be wiped out of the market. Due to Shenhua's low base of 2012 when the long-term contract price was significantly lower than present spot prices, we predict that its 1Q2013 performance won't retreat on a YoY basis. However, China's 1Q2013 GDP growth indicates that more positive catalysts are needed to verify a solid recovery of the thermal coal demand.

**Maintain Buy rating with TP at \$33.0.** The stock's valuation becomes very attractive after recent price rally. Considering its low cost of coal per tonne, heavy weight of the power business, and high double-digit ROAE for FY12 & FY13E, we believe that China Shenhua was oversold against its true investment value and we maintain Buy rating on the stock.

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

Key Data	
Share price (HK\$)	26.1
Upside potential (%)	26.4
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)	88,703
- A Shares (Rmbmn)	344,333
3-mth ave daily turnover (HK\$ mn)	575
Major shareholder (%)	
Shenhua Group Corp Ltd	73.01%

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY12 (%)	
Coal, %	66.3
Power, %	28.4
Others, %	5.3
Sum, %	100.00

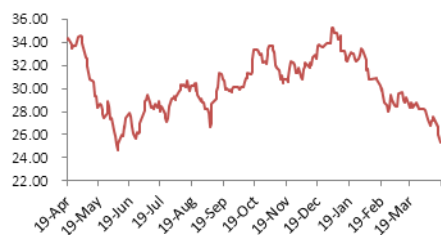
Source: Company

Share performance (%)		
	Absolute	Relative*
1-mth performance	(7.94)	(5.10)
3-mth performance	(21.03)	(8.05)
6-mth performance	(21.74)	(20.29)

\*Relative to HSCEI Index

Source: Bloomberg

#### 1 year price performance



Source: Bloomberg

#### Analyst

**Report Date:** 22 April, 2013

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#### 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)		8.5	8.3	7.9
P/B (x)		1.6	1.4	1.2
Dividend	0.90	0.96	0.97	1.02
Dividend yield (%)		4.9	5.3	5.8
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\$1.25)

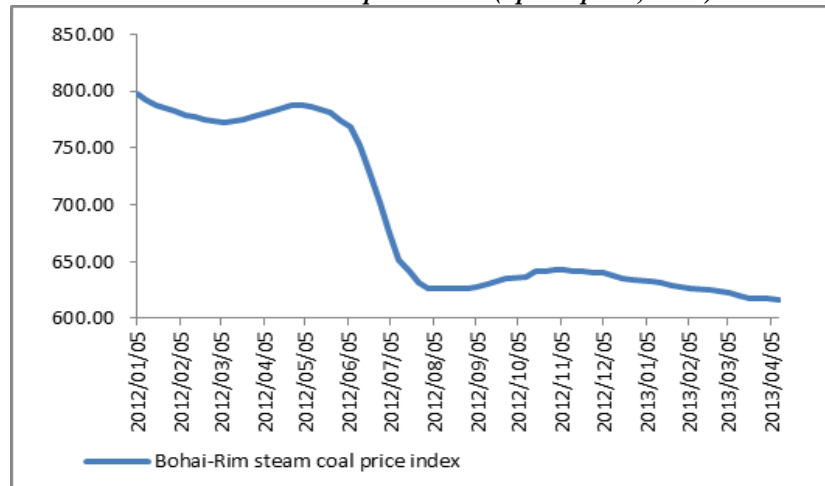


**Exhibit : China Shenhua's major productive and operation data of March, 2013**

Operational Indicators	2013	2013	2012	2012	Chg	Chg
	Mar.	YTM Total	(RS) Mar.	(RS) YTM Total	(% YoY) Mar.	(% YoY) YTM Total
Commercial coal production (mnt)	27.1	79.9	27.6	79.1	-1.8	1
Coal sales (mnt)	43.6	111.5	42.2	108.5	3.3	2.8
Of which: Export (mnt)	-	0.7	0.3	1.4	-100	-50
Import (mnt)	2.2	3.4	-	0.3	N/A	1,033.3
Transportation turnover of self-owned railways (Bn tonne kilometers)	17.6	50.2	15.6	44.7	12.8	12.3
Seaborne Coal (mnt)	19.4	47.5		N/A	N/A	N/A
Seaborne coal at Huanghua Port (mnt)	9.7	26.3	N/A	N/A	N/A	N/A
Seaborne coal at Shenhua Tianjin Coal Dock (mnt)	3.5	7.3	N/A	N/A	N/A	N/A
Shipping volume (mnt)	6.3	18.4	8.3	23.5	-24.1	-21.7
Shipment turnover (Bn tonne nautical miles)	6.4	17.9	6.7	19.5	-4.5	-8.2
Gross power generation (Bn kwh)	17.96	50.43	18.29	48.99	-1.8	2.9
Total power output dispatch (Bn kwh)	16.76	47.03	17.07	45.72	-1.8	2.9

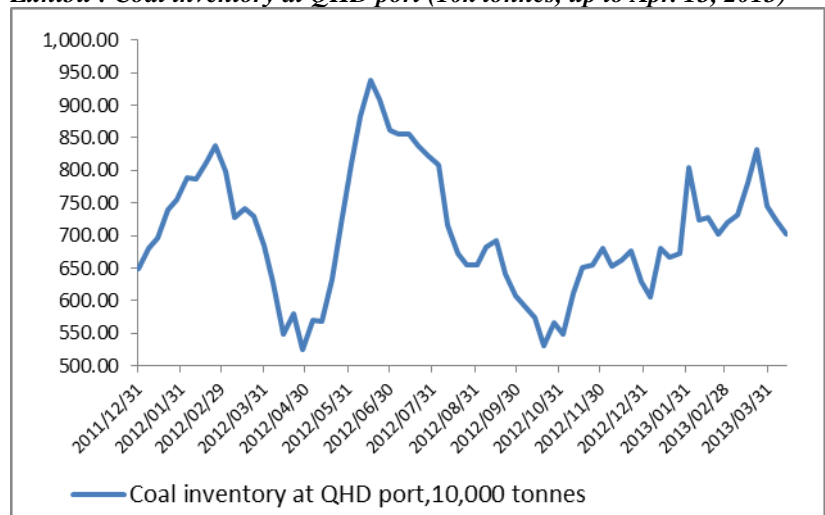
Source: Company

**Exhibit : Bohai-Rim steam coal price index (up to Apr.17, 2013)**



Source: Wind, ABCI Securities

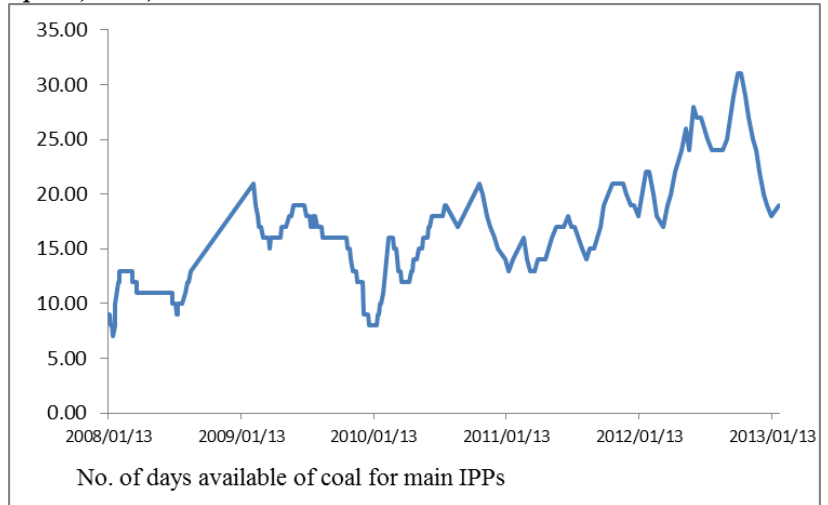
**Exhibit : Coal inventory at QHD port (10k tonnes, up to Apr. 13, 2013)**



Source: Wind, ABCI Securities



**Exhibit : No. of days available of coal for China's Main IPPs (up to Apr.10, 2013)**



Source: Wind, ABC Securities



## Disclosures

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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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