

25 September 2012

## Equity Focus

### Key Data

Share price (HK\$)	29.75
Target price (HK\$)	34.5
Upside potential (%)	15.9
52Wk H/L(HK\$)	38/24.15
Issued shares (mn)	19,889.6
- H Shares (mn)	3,398.6
- A Shares (mn)	16,491.0
Market cap	
- H Shares (HK\$m)	101,108
- A Shares (Rmbmn)	358,349
3-mth ave daily turnover (HK\$ mn)	454
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	(1.2)	(2.9)
3-mth	13.9	4.9
6-mth	(9.7)	(9.8)

Source: Bloomberg

\*Relative to Hang Seng Index

### 1 year price performance



Source: Bloomberg

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Previous report  
Date: 12 September 2012  
Rating - Buy

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

### Benefit from recovering demand and prices

**Domestic coal spot prices have been rising for four weeks. In addition, the coal inventories at QHD port plunged by 7% WoW. China's coal producers will benefit from this trend. We pick China Shenhua as it has the strongest logistic capacity. Besides, recent quantitative easing program in EU and US will fuel the market liquidity and commodity price.**

**Domestic coal prices have been improved for four consecutive weeks.** By 19 Sep, Bohai-Rim steam coal price index (5500 kcal/kg) has climbed up to Rmb633/ton, from Rmb626/ton on 22 Aug. We believe the recent recovery of spot coal prices will benefit China Shenhua.

**In addition, coal inventories at QHD port continue to fall.** The inventory dropped to 6.41 million tonnes last week, the lowest since May 19 and 32% below June's peak of 9.38 million tonnes.

China Shenhua reported satisfactory operational data of Aug. This indicates that it can take good opportunity of the domestic demand recovery in Aug-Sep. We believe its strong logistic capacity can facilitate it to capture recovering demand. Besides, recent stimulus in FAI and restriction on coal output would lend support to the coal prices in 4Q.

**Its H-share is trading at 11.3x 2012E PER and 1.8x 2012E PB.** Supporting catalysts includes: 1) coal prices recovering; 2) QHD coal inventories falling; 3) output constraint of small miners due to safety check; and 4) accelerating FAI projects approved by NDRC which will encourage the consumption of power, steel and cement in the near future.

**Risk factors:** 1) the influx of foreign coal cap the rebound momentum of domestic coal prices; 2) weaker power consumption growth on slowed economic growth; 3) possible change of resources tax system; 4) Weak Q3 results to be unveiled in Oct.

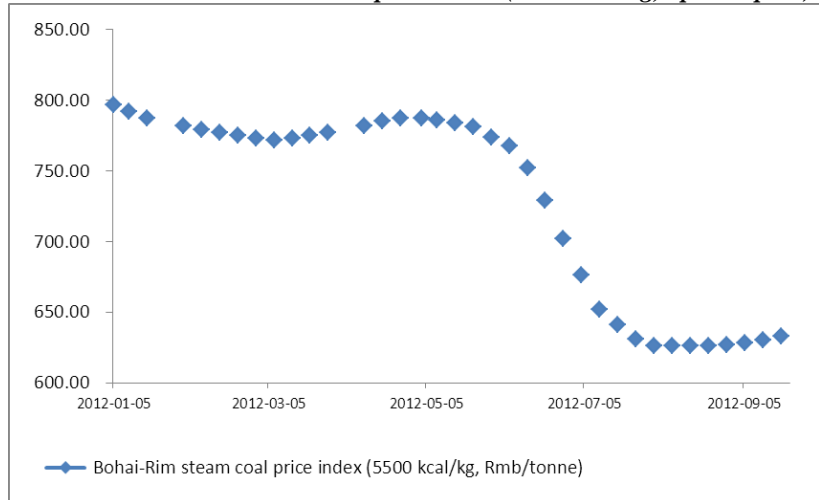
### Results and Valuation

FY ended Dec 31	FY10A	FY11A	2012F	2013F
Turnover (Rmb mn)	157,662	208,197	237,392	272,070
Net Income (Rmb mn)	38,834	45,677	42,398	48,439
Chg (% YoY)	28.3	17.6	-7.2	14.2
EPS (Rmb)	1.952	2.296	2.132	2.435
Chg (% YoY)	28.3	17.6	-7.2	14.2
P/E (x)	—	10.53	11.34	9.93
P/B (x)	—	2.13	1.86	1.63
Dividend yield (%)	—	3.72	3.45	3.95
ROAE (%)	20.7	21.2	17.53	17.53
Net debt/total equity (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Bloomberg, ABCI Securities estimates

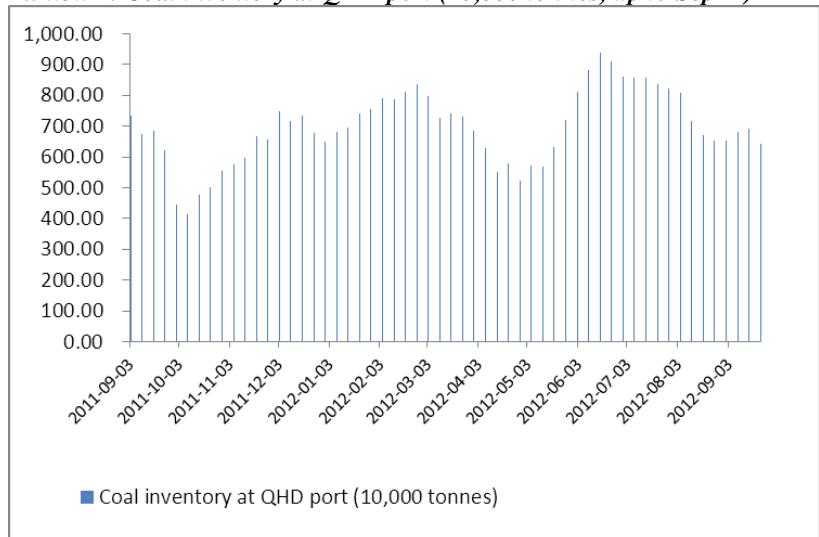


**Exhibit 1: Bohai-Rim steam coal price index (5500 kcal/kg, up to Sep 24)**



Source: Wind, ABCI Securities

**Exhibit 2: Coal inventory at QHD port (10,000 tonnes, up to Sep 24)**



Source: Wind, ABCI Securities

## Disclosures

### Analyst Certification

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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 (~15%)

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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