

Key Data

Share price (HK\$)	29.0
52Wk H/L(HK\$)	39.6/ 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)	98,559
- A Shares (Rmbmn)	363,627
30-day avg vol (HK\$mn)	486.8
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	7.2	5.9
3-mth	(16.1)	(8.5)
6-mth	(16.3)	(11.3)

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 giant expected to benefit from recovering demand

The decline of coal prices in 1H has stabilized recently as power demand is picking up in summer peak season. Besides, downstream demand for coal in non-power industries remains strong. Seasonal power shortage in some regions still exists. Coal producers with strong in-house logistic support such as Shenhua are in better position to reap the benefits of seasonal power shortage.

Recovery signals appear. Demand for power and thermal coal is in peak season (Jul-Aug). Seasonal factor lends support to coal prices. Downstream demand for coal in industries such as steel, cement and fertilizer remains solid in the 2Q. We anticipate downstream demand for coal in power, steel and cement will be boosted in the 2H12 when government implements further economic stimulus measures to bolster the economy for the rest of this year. Coal prices will be backed on recovering demand.

Decline in coal prices stabilize. QHD steam coal (5500Kcal) price stabilized at approx RMB625~630/t on Aug 1. We expect the price to stabilize or slightly recover in the near future. Long-term contract coal price was strong in 1H and broke the limit by exceeding over 5% yoy growth, indicating higher long-term contract price for next year.

Regional power shortage exists. According to our channel check, some traditional coal exporting provinces reduced exports secure sufficient supply for local consumptions. Regional shortages of coal are expected to appear. We believe Shenhua will be in better position to fill these regional shortages, given it has very strong logistic support.

2H12 Outlook. A strong recovery of coal prices is not expected, but decline in coal prices are stabilizing. Product price risk of Shenhua should lower.

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.

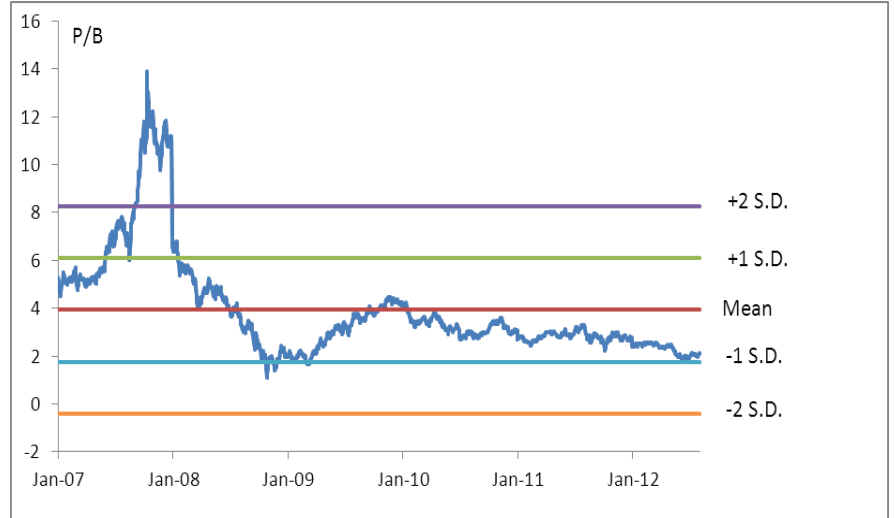
Performance and Valuation

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)	21.2	18.0	15.4	12.0	10.2
P/B (x)	3.6	3.2	2.8	2.3	2.1
Dividend yield (%)	0.8	2.0	2.3	3.2	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: China Shenhua P/B band chart



Source: Bloomberg, ABC Securities

Exhibit 2: China Shenhua P/E band chart



Source: Bloomberg, ABC Securities



Disclosures

Analyst Certification

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