



Rating
Hold

Asia
China

Resources
Metals & Mining

Company
China Shenhua Energy

Reuters 1088.HK	Bloomberg 1088 HK	Exchange HKG	Ticker 1088
ADR Ticker CSUAY	ISIN US16942A3023		

Date
22 March 2015

Results

Price at 20 Mar 2015 (HKD)	20.05
Price target - 12mth (HKD)	18.50
52-week range (HKD)	23.95 - 18.76
HANG SENG INDEX	24,375

Results in line yet outlooks remain challenging; maintaining Hold

FY2014 results in line with DBE and consensus; maintaining Hold

Shenhua announced its FY2014 IFRS-based results after market close on 20 March 2015. Shenhua's NPAT in 2014 was RMB38,689m, generally in line with DBE and Bloomberg consensus. 2014 preliminary results were announced in early February and thus we do not expect the official results announcement to have much affect on the share price. The 14% YoY (or RMB6bn) NPAT decline is mostly attributed to 10% YoY (or RMB39/t) decline in commercial coal ASP. Although Shenhua cut coal production costs by 3% in 2014 and has reduced its overall 2015 capex by 18%, we believe the outlook for the coal price and power tariffs remains dismal for Shenhua. Maintaining Hold.

Earnings in coal sector deteriorated the most, due to coal market weakness

Shenhua's 2014 NPAT attributable to shareholders was RMB38,689m on an IFRS basis, down c.14% from the 2013 result. Among its several businesses including coal, power, railway, shipping, ports and coal-to-chemical, the coal business experienced the largest deterioration. We show the details of each segment's operational results in Figures 2 to 6. The weak coal results were mainly attributable to ASP decline (10% or RMB39/t), together with coal sales volume declining by c.12% and unit production costs falling by c.3%; the coal segment's operating profit contribution decreased RMB9.9bn YoY.

OP mix further changed but some pressure on other segments as well

Shenhua's operating profit mix in 2014 changed from 50%/26%/22%/2% contributed by coal/power/transportation/coal-chem respectively in 2013 to 41%/31%/26%/2% in 2014. Segments other than coal looked more defensive in 2014. However, these segments had stagnant or declining top lines in 2014 with 7%/2%/2% YoY falls for power/transportation/coal chem. respectively, implying either weak volume growth or some ASP weakness in 2014. Further power tariff cuts, stagnant transportation volume to increase average fix cost for new railways, and coal chem. product ASPs drop can all introduce new challenges to Shenhua's profitability.

Conservative guidance; reiterating Hold; risks: China macro

Shenhua also disclosed details of its FY15 operation/financial guidance. While we think the guidance is too conservative, management's bearish stance, declining coal price, and potential power tariff cut mean Shenhua lacks positive catalysts. Maintaining Hold rating and HKD18.5 target price, which we derive using a DCF-based SOTP valuation. Major risks: China macro.

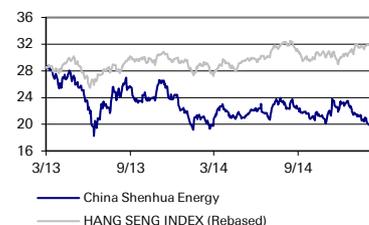
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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.7	-9.9	1.4
HANG SENG INDEX	-1.8	5.4	15.1

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (CNYm)	254,575.0	283,797.0	238,100.5	242,246.3	257,263.7
EBIT(CNYm)	70,272	70,884	58,907	53,646	56,425
Reported EPS FD(CNY)	2.48	2.28	1.89	1.71	1.81
Reported NPAT (CNYm)	49,234.0	45,435.0	37,499.3	34,001.8	35,917.8

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

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Model updated: 05 February 2015

Running the numbers

Asia
China
Metals & Mining

China Shenhua Energy

Reuters: 1088.HK Bloomberg: 1088.HK

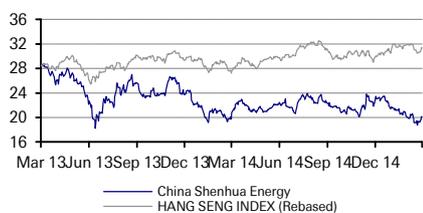
Hold

Price (20 Mar 15) HKD 20.05
Target Price HKD 18.50
52 Week range HKD 18.76 - 23.95
Market Cap (m) HKDm 398,795
USDm 51,406

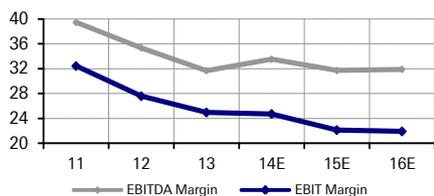
Company Profile

China Shenhua Energy is an integrated coal-based energy company focusing on the coal and power business in China. The Company also owns and operates an integrated coal transportation network consisting of dedicated rail lines and port facilities.

Price Performance



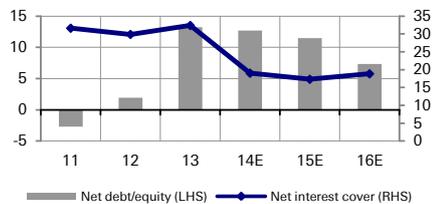
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

	2011	2012	2013	2014E	2015E	2016E
DB EPS (CNY)	2.26	2.48	2.28	1.89	1.71	1.81
Reported EPS (CNY)	2.26	2.48	2.28	1.89	1.71	1.81
DPS (CNY)	0.90	0.96	0.87	0.72	0.66	0.00
BVPS (CNY)	11.8	13.2	13.9	14.9	15.9	17.1
Weighted average shares (m)	19,890	19,890	19,890	19,890	19,890	19,890
Average market cap (CNYm)	572,344	508,659	411,357	318,594	318,594	318,594
Enterprise value (CNYm)	600,009	558,965	507,453	424,146	429,647	423,022

Valuation Metrics

P/E (DB) (x)	12.7	10.3	9.1	8.5	9.4	8.9
P/E (Reported) (x)	12.7	10.3	9.1	8.5	9.4	8.9
P/BV (x)	2.38	2.09	1.39	1.07	1.01	0.94
FCF Yield (%)	4.5	4.1	0.8	4.9	5.0	8.5
Dividend Yield (%)	3.1	3.8	4.2	4.5	4.1	0.0
EV/Sales (x)	2.9	2.2	1.8	1.8	1.8	1.6
EV/EBITDA (x)	7.3	6.2	5.6	5.3	5.6	5.2
EV/EBIT (x)	8.9	8.0	7.2	7.2	8.0	7.5

Income Statement (CNYm)

Sales revenue	208,197	254,575	283,797	238,100	242,246	257,264
Gross profit	93,959	99,679	100,464	89,042	86,269	92,038
EBITDA	82,159	90,053	89,982	79,844	76,859	82,101
Depreciation	14,606	19,781	19,098	20,937	23,213	25,676
Amortisation	0	0	0	0	0	0
EBIT	67,553	70,272	70,884	58,907	53,646	56,425
Net interest income/(expense)	-2,136	-2,351	-2,188	-3,096	-3,098	-2,994
Associates/affiliates	291	477	588	504	504	504
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	65,708	68,398	69,284	56,316	51,051	53,935
Income tax expense	13,951	10,976	13,704	11,192	10,136	10,714
Minorities	6,832	8,188	10,145	7,625	6,913	7,303
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	44,925	49,234	45,435	37,499	34,002	35,918
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	44,925	49,234	45,435	37,499	34,002	35,918

Cash Flow (CNYm)

Cash flow from operations	70,665	74,611	54,288	65,864	66,363	70,399
Net Capex	-44,713	-53,516	-51,148	-50,380	-50,545	-43,409
Free cash flow	25,952	21,095	3,140	15,484	15,818	26,989
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-14,917	-17,901	-19,094	-17,316	-14,405	-13,061
Net inc/(dec) in borrowings	-16,143	34	17,169	0	0	0
Other investing/financing cash flows	-8,038	-13,326	-14,496	0	0	0
Net cash flow	-13,146	-10,098	-13,281	-1,832	1,413	13,928
Change in working capital	-12,764	432	16,562	1,464	-967	-235

Balance Sheet (CNYm)

Cash and other liquid assets	69,355	61,739	46,272	44,440	45,853	59,781
Tangible fixed assets	269,519	308,768	338,181	366,357	392,422	408,888
Goodwill/intangible assets	3,383	3,704	3,697	3,697	3,697	3,697
Associates/investments	4,827	5,650	5,898	5,898	5,898	5,898
Other assets	75,114	92,224	119,250	106,267	108,672	112,576
Total assets	422,198	472,085	513,298	526,659	556,541	590,840
Interest bearing debt	61,932	67,727	90,527	90,527	90,527	90,527
Other liabilities	86,408	91,207	88,129	73,682	77,054	81,193
Total liabilities	148,340	158,934	178,656	164,209	167,581	171,720
Shareholders' equity	233,943	263,183	276,903	297,086	316,683	339,540
Minorities	39,915	49,968	57,739	65,364	72,277	79,580
Total shareholders' equity	273,858	313,151	334,642	362,450	388,960	419,120
Net debt	-7,423	5,988	44,255	46,087	44,674	30,746

Key Company Metrics

Sales growth (%)	nm	22.3	11.5	-16.1	1.7	6.2
DB EPS growth (%)	na	9.6	-7.7	-17.5	-9.3	5.6
EBITDA Margin (%)	39.5	35.4	31.7	33.5	31.7	31.9
EBIT Margin (%)	32.4	27.6	25.0	24.7	22.1	21.9
Payout ratio (%)	39.8	38.8	38.1	38.4	38.4	0.0
ROE (%)	20.8	19.8	16.8	13.1	11.1	10.9
Capex/sales (%)	21.5	21.0	18.0	21.2	20.9	16.9
Capex/depreciation (x)	3.1	2.7	2.7	2.4	2.2	1.7
Net debt/equity (%)	-2.7	1.9	13.2	12.7	11.5	7.3
Net interest cover (x)	31.6	29.9	32.4	19.0	17.3	18.8

Source: Company data, Deutsche Bank estimates

Shenhua 2014 results summary

Figure 1: Shenhua's 2014 financial & operational results summary (IFRS)

		FY2014	FY2013	YoY	Dbe	% of Dbe	Cons.	% of cons.	Comments
Financials									
Revenue	RMBm	248,360	283,797	-12%	238,100	104%	249,100	100%	Top line decreased 12% YoY mainly due to: (1) coal sales volume down 12.4% YoY; (2) commercial coal ASP down by 10.1% YoY; (3) power dispatch down by 5.1% YoY
COGS	RMBm	174,843	202,431	-14%	149,058	117%	177,055	99%	COGS down by 14% due to: (1) price/volume declines of externally sourced coal; (2) decrease of transportation cost resulting from own transportation capacity increase
GP	RMBm	73,517	81,366	-10%	89,042	83%	72,045	102%	
GPM	%	29.6%	28.7%	na	37.4%	na	28.9%	na	
SG&A	RMBm	9,459	10,118	-7%	9,198	103%	na	na	Decline of logistic costs of externally-purchased coal
SG&A % of revenue	%	3.8%	3.6%	na	3.9%	na	na	na	
OP	RMBm	64,058	71,248	-10%	58,907	109%	61,168	105%	
Net finance cost	RMBm	(3,290)	(2,188)	na	(3,096)	106%	na	na	Average debt amount increased YoY
PBT	RMBm	60,945	68,928	-12%	56,316	108%	58,735	104%	
Tax	RMBm	(12,562)	(13,704)	na	(11,192)	112%	na	na	
NPAT	RMBm	38,689	45,079	-14%	37,499	103%	38,543	100%	
Other financials									
Effective tax rate	%	21%	20%	na	20%	na	na	na	
Net gearing ratio	%	13%	13%	na	13%	na	na	na	
CFO	RMBm	67,511	54,288	24%	65,864	103%	na	na	
Operation									
Coal									
Total sales vol.	mt	451.1	514.8	-12%	451.1	100%	na	na	Fell due to weak demand and government initiatives
Self-produced vol.	mt	306.6	318.1	-4%	306.6	100%	na	na	
Overall ASP	RMB/t	351.4	390.7	-10%	351.4	100%	na	na	Declined due to weak market demand/supply balance
Unit cost of self-produced coal	RMB/t	132.0	136.5	-3%	139.7	95%	na	na	Unit cost decreased due to decline in raw materials cost and other costs (including mining engineering/vehicle expenses)
Power									
Output dispatch	bn kwh	199.4	210.2	-5%	199.4	100%	na	na	
Tariff	RMB/mwh	355.0	364.0	-2%	349.9	101%	na	na	
Unit cost	RMB/mwh	249.6	267.6	-7%	254.4	98%	na	na	D due to coal price drop

Source: Deutsche Bank, company data, Bloomberg Finance LP





Figure 2: Financial and operational data by segment – coal

		2014	2013	YoY	Dbe	% of Dbe	1H13	2H13	1H14	2H14
Revenue	RMBm	192,270	229,342	-16%	152,790	126%	103,430	125,912	103,566	88,704
GP	RMBm	30,596	41,066	-25%	26,150	117%	23,179	17,887	17,977	12,619
GPM	%	16%	18%	na	17%	na	22%	14%	17%	14%
OP	RMBm	26,068	35,919	-27%	22,081	118%	21,130	14,789	16,164	9,904
OPM	%	14%	16%	na	14%	na	20%	12%	16%	11%
Total sales volume	mt	451	515	-12%	451	100%	243	272	235	217
Self-produced volume	mt	307	318	-4%	307	100%	158	160	155	152
Overall ASP	RMB/t	351	391	-10%	351	100%	406	377	368	334
Unit cost	RMB/t	132	137	-3%	140	95%	124	149	127	137

Source: Deutsche Bank, company data, Bloomberg Finance LP

Figure 3: Unit cost analysis of Shenhua's self-produced coal

		FY14	FY13	YoY (%)	Comments
Materials and fuel cost	RMB/t	24.6	26.6	-8%	Fuel and materials cost declined
Labor costs	RMB/t	15.4	15.2	1%	Unit labor cost increase due to coal sales volume decline
Maintenance cost	RMB/t	9.9	9.2	8%	Maintenance fees on mining equipments increased
Depreciation and amortization	RMB/t	22.3	18.5	21%	Unit D&A increased due to coal sales volume decline
Other costs	RMB/t	59.8	67.0	-11%	Mining engineering fees and vehicle fees decreased
Unit cost of self-produced coal	RMB/t	132.0	136.5	-3%	

Source: Deutsche Bank, company data

Figure 4: Financial and operational data by segment – power

		2014	2013	YoY	Dbe	% of Dbe	1H13	2H13	1H14	2H14
Revenue	RMBm	73,323	78,908	-7%	72,433	101%	37,100	41,808	37,074	36,249
GP	RMBm	22,152	21,127	5%	30,319	73%	9,364	11,763	11,147	11,005
GPM	%	30%	27%	na	42%	na	25%	28%	30%	30%
OP	RMBm	19,629	18,459	6%	18,762	105%	8,299	10,160	10,030	9,599
OPM	%	27%	23%	na	26%	na	22%	24%	27%	26%
Output dispatch	bn kwh	199	210	-5%	199	100%	98	112	99	100
Tariff	RMB/mwh	355	364	-2%	350	101%	365	363	360	350
Unit cost	RMB/mwh	250	268	-7%	254	98%	275	262	254	245

Source: Deutsche Bank, company data, Bloomberg Finance LP



Figure 5: Financial and operational data by segment – transportation

		2014	2013	YoY	Dbe	% of Dbe	1H13	2H13	1H14	2H14
Revenue	RMBm	37,836	38,794	-2%	39,655	95%	17,997	20,797	18,836	19,000
GP	RMBm	18,529	17,236	8%	18,137	102%	8,491	8,745	9,613	8,916
GPM	%	49%	44%	na	46%	na	47%	42%	51%	47%
OP	RMBm	16,388	15,556	5%	16,388	100%	7,765	7,791	8,831	7,557
OPM	%	43%	40%	na	41%	na	43%	37%	47%	40%
Railway turnover	bt km	269	262	3%	278	97%	124	138	131	138
-Self-owned railway	bt km	224	212	6%	225	99%	102	110	110	114
Shipping volume	mt	88	119	-26%	88	100%	43	75	46	42
Seaborne sales	mt	236	227	4%	236	100%	111	116	120	116
-Self-owned ports	mt	174	160	9%	181	96%	76	84	85	89

Source: Deutsche Bank, company data, Bloomberg Finance LP

Figure 6: Financial and operational data by segment – coal-to-chemical

		2014	2013	YoY	Dbe	% of Dbe	1H13	2H13	1H14	2H14
Revenue	RMBm	5,880	5,990	-2%	6,712	88%	2,895	3,095	3,430	2,450
GP	RMBm	1,635	1,683	-3%	2,367	69%	793	890	1,068	567
GPM	%	28%	28%	na	35%	na	27%	29%	31%	23%
OP	RMBm	1,410	1,510	-7%	1,835	77%	728	782	980	430
OPM	%	24%	25%	na	27%	na	25%	25%	29%	18%
Sales volume										
PE	kt	266	262	1%	288	92%	134	129	153	113
PP	kt	268	268	0%	295	91%	136	132	155	113
Price										
PE	RMB/t	8,872	8,836	0%	9,278	96%	8,557	9,127	9,054	8,626
PP	RMB/t	8,629	8,747	-1%	9,184	94%	8,379	9,123	8,767	8,440
Production volume										
PE	kt	261	270	-3%	284	92%	130	140	146	115
PP	kt	264	275	-4%	289	91%	133	142	149	115
Unit production cost										
PE	RMB/t	6,009	6,113	-2%	6,021	100%	5,982	6,235	5,891	6,158
PP	RMB/t	5,802	5,867	-1%	5,779	100%	5,737	5,988	5,685	5,952

Source: Deutsche Bank, company data, Bloomberg Finance LP

Figure 7: 2015 Shenhua's guidance/target

		2015 guidance	2015DBe	% of Dbe	2015 cons.	% of cons.	2014	YoY
Volume of self-produced coal	mt	274	341	80%	na	na	307	89%
Coal sales volume	mt	404	486	83%	na	na	451	90%
Power dispatch	bn kwh	213	213	100%	na	na	199	107%
Revenue	RMBm	210,000	242,246	87%	244,764	86%	248,366	85%
COGS	RMBm	156,300	155,977	100%	176,365	89%	174,856	89%
SG&A & net financial costs	RMBm	15,000	12,294	122%	na	na	12,949	116%

Source: Deutsche Bank, company data



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
China Shenhua Energy	1088.HK	20.15 (HKD) 20 Mar 15	7,14,15

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

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15. This company has been a client of Deutsche Bank Securities Inc. within the past year, during which time it received non-investment banking securities-related services.

Important Disclosures Required by Non-U.S. Regulators

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7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/Disclosure.egsr?ricCode=1088.HK>

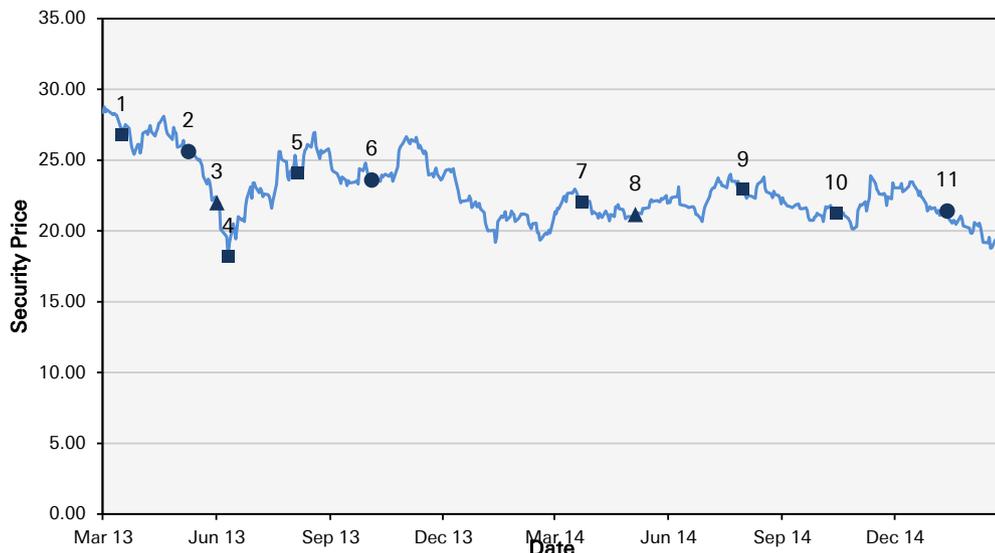
Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. James Kan



Historical recommendations and target price: China Shenhua Energy (1088.HK)

(as of 3/20/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	09/04/2013:	Buy, Target Price Change HKD30.80	7.	16/04/2014:	Hold, Target Price Change HKD24.00
2.	02/06/2013:	Downgrade to Hold, Target Price Change HKD27.10	8.	29/05/2014:	Upgrade to Buy, Target Price Change HKD25.40
3.	25/06/2013:	Upgrade to Buy, Target Price Change HKD27.20	9.	24/08/2014:	Buy, Target Price Change HKD26.00
4.	04/07/2013:	Buy, Target Price Change HKD26.40	10.	07/11/2014:	Buy, Target Price Change HKD24.50
5.	29/08/2013:	Buy, Target Price Change HKD26.00	11.	05/02/2015:	Downgrade to Hold, Target Price Change HKD18.50
6.	28/10/2013:	Downgrade to Hold, Target Price Change HKD24.50			

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

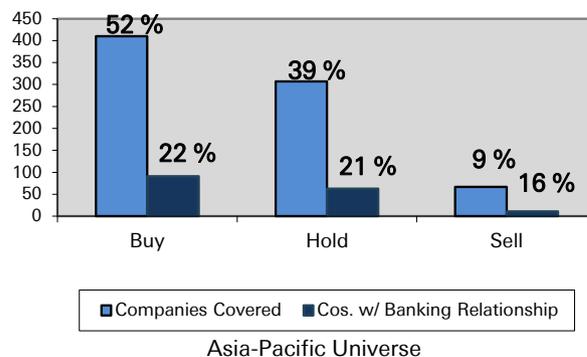
- Newly issued research recommendations and target prices always supersede previously published research.
- Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships





Regulatory Disclosures

1. Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at <https://gm.db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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