



Rating
Hold

Asia
Hong Kong

Resources
Metals & Mining

Company
Shougang Fushan

Reuters 0639.HK	Bloomberg 639 HK	Exchange HSI	Ticker 0639
ADR Ticker SHOUY	ISIN US82536R1014		

Date
27 March 2015

Results

Price at 27 Mar 2015 (HKD)	1.49
Price target - 12mth (HKD)	1.87
52-week range (HKD)	2.49 - 1.44
HANG SENG INDEX	24,497

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Net loss due to one-off impairment loss; maintaining Hold

Net loss of HKD425m, due mainly to impairment loss of HKD824m; Hold

Shougang Fushan announced its FY14 results after the market close on 26 March. Fushan recorded a FY14 net loss of HKD425m, attributable to the impairment loss on goodwill of HKD300m in 1H14 and HKD524m in 2H14, with 1H14 and 2H14 net losses of HKD192m and HKD234m, respectively. Stripping out the impairment loss and donations, NPAT reached HKD354m/HKD290m in 1H14/2H14, suggesting that our FY15E NPAT of HKD585m should be intact. Maintaining Hold.

Focusing on clean coal business

Fushan's sales volume in raw coking coal declined 48% YoY, from 1.96mt in 2013 to 1.01mt in 2014, and that in clean coking coal increased by c.19%, from 2.53mt in 2013 to 3mt in 2014. Fushan will continue to increase its sales volume in clean coking coal and to decrease it in raw coal, whose margins are much lower than those of clean coal (Figure 2 and Figure 3). The company guides that 2015 sales volume of clean coking coal could amount to 3.3mt.

Cost reduction initiatives continue

While its coal ASP declined 22% YoY, in line with the China benchmark (Liulin No.4) coal price decline, Fushan achieved 5% and 9% YoY declines in raw coal unit production costs and clean coal unit processing costs, respectively, thanks to a decline in labour/raw material costs, sustainable development fees and resources compensations fees. Under current coal prices, the coal resources tax reform could help to reduce the unit cost by RMB4/t. In 2015, management intends to cut the raw coal unit cost by another 5%, and also expects a decline in clean coal unit processing costs.

FY15E NPAT of HKD585m should be intact; Hold; risks

Stripping out the HKD824m impairment loss and the HKD246m donation, Fushan's earnings would have been HKD354m and HKD290m for 1H14 and 2H14, respectively. This suggests that our FY15E NPAT of HKD585m is intact, given no significant deviations in production levels, ASP and unit costs. We maintain a Hold rating on Fushan. We set our target price using a DCF, with cost of capital at 11.2%. The company trades at c.6x 2015E EPS, when net off cash, so we do not think our valuation is demanding. Risks: higher-/lower-than-expected ASP/unit costs/sales volume.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.0	-12.4	-36.3
HANG SENG INDEX	-1.3	4.9	12.2

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (HKDm)	5,650.6	4,268.2	3,303.1	3,234.9	3,511.2
EBITDA (HKDm)	3,380.2	2,264.5	689.4	1,399.1	1,616.3
EBIT(HKDm)	2,853	1,700	111	818	1,069
Reported EPS FD(HKD)	0.34	0.21	0.03	0.11	0.14
Reported NPAT (HKDm)	1,800.4	1,115.1	148.6	585.1	744.1
DPS (net) (HKD)	0.15	0.10	0.01	0.05	0.06

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: 13 November 2014

Running the numbers

Asia

Hong Kong

Metals & Mining

Shougang Fushan

Reuters: 0639.HK

Bloomberg: 639 HK

Hold

Price (27 Mar 15) HKD 1.49

Target Price HKD 1.87

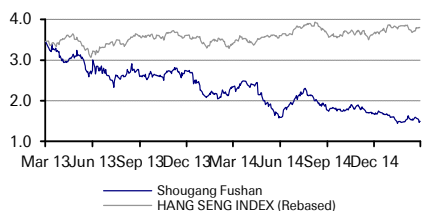
52 Week range HKD 1.44 - 2.49

Market Cap (m) HKDm 7,900
USDm 1,019

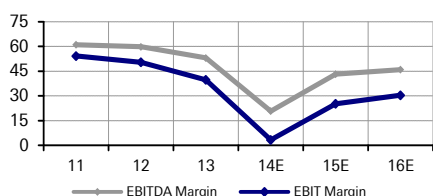
Company Profile

Shougang Fushan Resources is a coking coal producer located in Liulin, Shanxi, China. Fushan owns three quality coking coal mines with a current run rate at 6.3mt raw coal per year. It is principally engaged in coking coal mining and the sales of raw and clean coking coal.

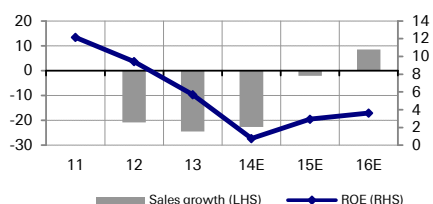
Price Performance



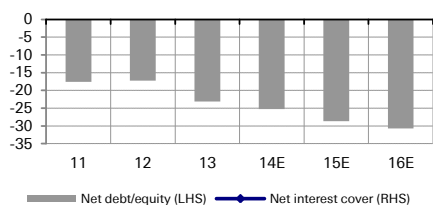
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

	2011	2012	2013	2014E	2015E	2016E
DB EPS (HKD)	0.42	0.34	0.21	0.03	0.11	0.14
Reported EPS (HKD)	0.42	0.34	0.21	0.03	0.11	0.14
DPS (HKD)	0.19	0.15	0.11	0.01	0.05	0.06
BVPS (HKD)	3.5	3.6	3.8	3.7	3.8	3.9
Weighted average shares (m)	5,380	5,327	5,302	5,302	5,302	5,302
Average market cap (HKDm)	23,471	13,769	15,447	7,900	7,900	7,900
Enterprise value (HKDm)	19,672	10,508	10,880	2,809	1,981	1,371

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
P/E (DB) (x)	10.4	7.7	13.9	53.2	13.5	10.6
P/E (Reported) (x)	10.4	7.7	13.9	53.2	13.5	10.6
P/BV (x)	0.75	0.79	0.72	0.40	0.39	0.38
FCF Yield (%)	12.0	13.2	11.0	11.6	12.3	11.5
Dividend Yield (%)	4.4	5.8	3.6	0.8	3.3	4.2
EV/Sales (x)	2.8	1.9	2.5	0.9	0.6	0.4
EV/EBITDA (x)	4.5	3.1	4.8	4.1	1.4	0.8
EV/EBIT (x)	5.1	3.7	6.4	25.3	2.4	1.3

Valuation Metrics

	2011	2012	2013	2014E	2015E	2016E
P/E (DB) (x)	10.4	7.7	13.9	53.2	13.5	10.6
P/E (Reported) (x)	10.4	7.7	13.9	53.2	13.5	10.6
P/BV (x)	0.75	0.79	0.72	0.40	0.39	0.38
FCF Yield (%)	12.0	13.2	11.0	11.6	12.3	11.5
Dividend Yield (%)	4.4	5.8	3.6	0.8	3.3	4.2
EV/Sales (x)	2.8	1.9	2.5	0.9	0.6	0.4
EV/EBITDA (x)	4.5	3.1	4.8	4.1	1.4	0.8
EV/EBIT (x)	5.1	3.7	6.4	25.3	2.4	1.3

Income Statement (HKDm)

Sales revenue	7,139	5,651	4,268	3,303	3,235	3,511
Gross profit	5,523	4,113	2,737	1,774	1,685	1,865
EBITDA	4,365	3,380	2,264	689	1,399	1,616
Depreciation	208	252	283	305	318	285
Amortisation	286	276	281	274	263	263
EBIT	3,871	2,853	1,700	111	818	1,069
Net interest income/(expense)	56	96	105	123	132	142
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-139	0	0	0	0	0
Other pre-tax income/(expense)	3	23	24	10	10	10
Profit before tax	3,791	2,972	1,830	244	960	1,221
Income tax expense	1,141	822	531	71	278	354
Minorities	394	350	184	25	97	123
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,256	1,800	1,115	149	585	744
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	2,256	1,800	1,115	149	585	744

Cash Flow (HKDm)

Cash flow from operations	3,168	2,225	1,978	1,319	1,370	1,308
Net Capex	-346	-404	-283	-400	-400	-400
Free cash flow	2,822	1,821	1,695	919	970	908
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-1,424	-1,270	-892	-555	-69	-272
Net inc/(dec) in borrowings	-258	181	-194	0	0	0
Other investing/financing cash flows	611	-2,268	-1,453	0	0	0
Net cash flow	1,751	-1,536	-844	364	900	636
Change in working capital	-595	-476	838	568	107	-107

Balance Sheet (HKDm)

Cash and other liquid assets	4,517	4,674	5,588	5,952	6,853	7,488
Tangible fixed assets	3,103	3,599	3,610	3,705	3,787	3,902
Goodwill/intangible assets	12,810	12,706	12,729	12,456	12,193	11,930
Associates/investments	1,771	1,300	1,291	1,291	1,291	1,291
Other assets	4,798	4,541	3,653	3,116	3,017	3,144
Total assets	27,000	26,821	26,871	26,520	27,140	27,756
Interest bearing debt	898	1,075	580	580	580	580
Other liabilities	5,544	4,883	4,632	4,663	4,671	4,691
Total liabilities	6,442	5,959	5,212	5,243	5,251	5,271
Shareholders' equity	18,967	19,224	19,927	19,705	20,245	20,814
Minorities	1,592	1,638	1,732	1,572	1,644	1,671
Total shareholders' equity	20,558	20,862	21,659	21,277	21,890	22,484
Net debt	-3,619	-3,599	-5,008	-5,372	-6,273	-6,908

Key Company Metrics

Sales growth (%)	nm	-20.8	-24.5	-22.6	-2.1	8.5
DB EPS growth (%)	na	-19.4	-37.8	-86.7	293.7	27.2
EBITDA Margin (%)	61.1	59.8	53.1	20.9	43.3	46.0
EBIT Margin (%)	54.2	50.5	39.8	3.4	25.3	30.4
Payout ratio (%)	45.3	44.4	49.9	45.0	45.0	45.0
ROE (%)	12.2	9.4	5.7	0.7	2.9	3.6
Capex/sales (%)	4.8	7.2	6.6	12.1	12.4	11.4
Capex/depreciation (x)	0.7	0.8	0.5	0.7	0.7	0.7
Net debt/equity (%)	-17.6	-17.2	-23.1	-25.2	-28.7	-30.7
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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Fushan FY14 result

Figure 1: Fushan's FY14 financial summary

		2014	2013	YoY	Dbe	% of Dbe	Cons. % of cons.	1H13	2H13	1H14	2H14	Comments	
Revenue	HKDm	3,255	4,268	-24%	3,303	99%	3,504	93%	2,322	1,946	1,702	1,552	Coal ASP declined
COGS	HKDm	(1,951)	(2,095)	-7%	(2,107)	93%	na	na	(1,037)	(1,058)	(955)	(996)	(1) Raw coking coal volume decreased, (2) unit cost decreased thanks to (i) labour & material cost decline, (ii) fees reduction from sustainable development fees and resources compensation fees
GP	HKDm	1,304	2,173	-40%	1,196	109%	na	na	1,285	888	748	556	
SG&A	HKDm	(612)	(461)	33%	(562)	109%	na	na	(216)	(245)	(311)	(301)	Transportation fee increased
Impairment loss	HKDm	(824)	-	na	(300)	275%	na	na	-	-	(300)	(524)	Fushan booked an impairment loss of goodwill of HKD824 in FY14, with c.HKD18m in Xingwu and c.HKD806m in Jinjiazhuang
OP	HKDm	(260)	1,700	-115%	111	na	(500)	52%	959	741	(81)	(179)	
PBT	HKDm	(139)	1,830	na	244	na	(394)	35%	1,007	823	(30)	(109)	
Tax	HKDm	(222)	(531)	-58%	(71)	314%	na	na	(304)	(226)	(131)	(91)	
MI	HKDm	64	184	-65%	25	263%	na	na	121	64	30	34	
NPAT	HKDFm	(425)	1,115	na	149	na	(357)	119%	582	533	(192)	(234)	Stripping out impairment loss and donations, Fushan's FY14 earnings would have reached c.HKD644m
GPM	%	40%	51%	na	36%	na	na	na	55%	46%	44%	36%	
SG&A % of revenue	%	19%	11%	74%	17%	110%	na	na	9%	13%	18%	19%	
Effective interest rate	%	3%	3%	na	2.4%	na	na	na	3%	3%	4%	3%	

Source: Deutsche Bank, Company data, Bloomberg Finance LP





Figure 2: Fushan's operational summary

		2014	2013	YoY	1H13	2H13	1H14	2H14
Raw coal production	mt	5.68	6.13	-7%	3.39	2.74	2.96	2.72
Raw coal sales	mt	1.01	1.96	-48%	1.32	0.64	0.56	0.45
ASP	RMB/t	494	632	-22%	661	572	549	426
Clean coal production	mt	3.01	2.67	13%	1.28	1.39	1.49	1.52
Clean coal sales	mt	3.00	2.53	19%	1.12	1.41	1.41	1.59
ASP for clean coal	RMB/t	844	1,076	-22%	1,158	1,011	912	784
Clean coal yield	%	64%	64%	na	62%	66%	62%	67%

Source: Deutsche Bank, Company data

Figure 3: Cost analysis of raw coking coal and clean coking coal

		2014	2013	YoY	1H13	2H13	1H14	2H14
Production of raw coking coal	RMB/t	248	260	-5%	248	275	246	250
Depn.	RMB/t	63	62	2%	60	64	57	70
Cash cost	RMB/t	185	198	-7%	188	210	189	181
Processing cost for clean coal	RMB/t	48	53	-9%	50	57	46	50
Depn.	RMB/t	10	11	-9%	11	11	10	10
Cash cost	RMB/t	38	42	-10%	39	46	36	40

Source: Deutsche Bank, Company data



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Shougang Fushan	0639.HK	1.47 (HKD) 27 Mar 15	NA

*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.

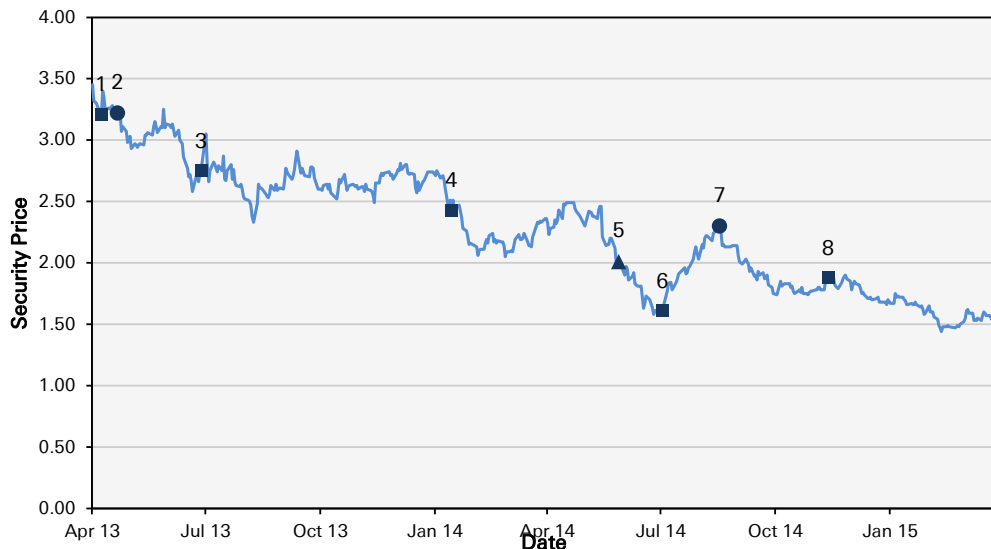
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Historical recommendations and target price: Shougang Fushan (0639.HK)

(as of 3/27/2015)



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 HKD3.70	5. 29/05/2014:	Upgrade to Buy, Target Price Change HKD2.40
2. 22/04/2013:	Downgrade to Hold, Target Price Change HKD2.90	6. 03/07/2014:	Buy, Target Price Change HKD2.20
3. 28/06/2013:	Hold, Target Price Change HKD2.60	7. 18/08/2014:	Downgrade to Hold, HKD2.20
4. 15/01/2014:	Hold, Target Price Change HKD2.30	8. 13/11/2014:	Hold, Target Price Change HKD1.87



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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 projected 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

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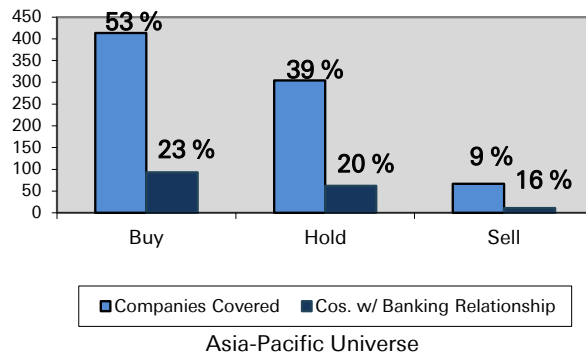
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Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships





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