China Shenhua Energy (1088 HK)

Share Price: HKD21.70  MCap (USD): 55.7B  Hong Kong
Target Price: HKD25.00(+15%)  ADTV (USD): 52M  Materials
BUY  (Unchanged)

Lowering EPS and target price
- We reduce our FY13-15F EPS by 6-8% due to a higher tax rate and minority interest expense, as well as lower coal price assumptions for 2014 and 2015.
- We lower TP 14% to HKD25 on a 20% discount to our DCF value, equal to 1.2x PBR (ROE 14% avg. 2014/15) vs. the previous 10% discount and 1.4x PBR (ROE avg. 15.5%).
- Maintain BUY as cash generation remains strong and EBITDA increasing YoY through 2015. The company acquired Baotou Chemicals and further M&A upside is likely.

What’s Changed?
The major hit to our EPS forecasts is a higher tax rate (20% vs. 19% previously), and minority interest expense (18% of PBT vs. 13% previously) reflecting Shenhua’s changing profit mix. We also lower our coal price assumptions due to the soft market dynamics.

A rising share of Shenhua’s profit is coming from power generation and logistics (rail/shipping) largely in eastern China where tax rates are higher, and less of a share from coal located in western China where tax rates are lower. The logistics business, particularly rail, has a significantly higher minority interest share.

We also lower our coal price assumption by 4% for 2014 to reflect the 1Q14 contract price settlements and our forecast of a further 5% decrease in spot prices from now until the end of June on weakening seasonal demand amid above-normal power plant inventory at 22 days. We also revise down our 2015 coal price forecast by 3% to reflect the lower base in 2014.

Strong CF, dividend and valuation support BUY rating
Shenhua has strong cash generation, 3% EBITDA growth pa and 5% dividend yield. The 20% discount to our DCF valuation reflects the weak EPS trend, the challenging outlook for thermal coal and lower ROE. Our estimates include recently acquired Baotou Chemical and we see further M&A as likely.

Key Data
52w high/low (HKD) 33.50/18.22
Free float (%) 27.0
Issued shares (m) 19,890
Market capitalization HKD431.6B
Major shareholders:
- Walter Scott & Partners Ltd. 5%
- BlackRock Fund Advisors 4%
- The Vanguard Group, Inc. 3%

Share Price Performance

Maybank vs. Market

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<th>1 Mth</th>
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<th>12 Mth</th>
</tr>
</thead>
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<td>Positive</td>
<td>Neutral</td>
<td>Negative</td>
</tr>
<tr>
<td>40</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Maybank Consensus % +/-</td>
<td></td>
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</tr>
<tr>
<td>Target Price (HKD)</td>
<td>25.00</td>
<td>26.27 (4.8)</td>
</tr>
<tr>
<td>2013 PATMI(CNYm)</td>
<td>43,776</td>
<td>43,678 (0.2)</td>
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<tr>
<td>2014 PATMI(CNYm)</td>
<td>43,011</td>
<td>43,729 (1.6)</td>
</tr>
</tbody>
</table>

Source: FactSet; Maybank

Alexander Latzer
(852) 2268-0647
alexanderlatzer@kimeng.com.hk

See page 12 for important disclosures and analyst certifications
Key catalysts - mostly all negative near term

The upcoming set of newsflow on Shenhua, expected by the end of March, should be mostly negative as we expect: 1) weaker spot market coal prices; 2) lower QoQ 2Q14 coal contract price; and 3) lower HoH 2H13 results. Shenhua’s earnings are typically lower during 2H than 1H due mainly to higher SG&A expense booked later in the year.

The lower contract price follows our estimate of a 5% decrease in the spot market from the current price of CNY620/t by the end of June 2014. Shenhua settled its 1Q14 contract coal price for domestic power groups at CNY580-590/t. The table below contains our assumptions for key financial and operating items and how they compare to our previous forecasts.

Figure 1: Revisions to our key estimates and assumptions

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<tr>
<th></th>
<th>New</th>
<th>Old</th>
<th>% Chg.</th>
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<tr>
<td>EPS (CNY)</td>
<td>2.20</td>
<td>2.16</td>
<td>2.25</td>
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<tr>
<td>Net profit (CNY bn)</td>
<td>43.8</td>
<td>43.0</td>
<td>44.8</td>
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<tr>
<td>Tax rate (%)</td>
<td>19.1</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Minority interest (CNY bn)</td>
<td>10.3</td>
<td>12.5</td>
<td>13.0</td>
</tr>
<tr>
<td>China coal price (CNY/t)*</td>
<td>100.3</td>
<td>101.1</td>
<td>104.9</td>
</tr>
<tr>
<td>China coal price (US$/t)*</td>
<td>218.8</td>
<td>224.2</td>
<td>226.2</td>
</tr>
<tr>
<td>Total coal cost (CNY/t)*</td>
<td>35.6</td>
<td>36.8</td>
<td>37.7</td>
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<tr>
<td>Total coal cost (USD/t)</td>
<td>100.3</td>
<td>101.1</td>
<td>104.9</td>
</tr>
<tr>
<td>Coal production (mn t)</td>
<td>315.6</td>
<td>326.3</td>
<td>337.5</td>
</tr>
<tr>
<td>Coal sales volume (mn t)*</td>
<td>500.0</td>
<td>522.1</td>
<td>550.1</td>
</tr>
</tbody>
</table>

Source: **Qinhuangdao China 5,800 kcal thermal coal. Coal sales volume includes coal production and third party coal purchases. Total coal cost includes cost of self-produced coal, external purchases, and transportation.

Long-term positive outlook for cash flow growth

We have left our coal production and sales volume forecasts unchanged but we lower our net profit and ROE estimates as mentioned above. We assume approximately 3% annual growth in annual coal production and 5% in coal sales (including third-party coal purchases). Shenhua will provide FY14 volume guidance during its FY13 results briefing.

The lower ROE is a function of the changing business mix from high-margin coal sales from self-owned mines to increasing sales from third parties, as well as higher profits from the power and logistics segments. In addition, we forecast low single digit increases in unit coal costs amid flat coal prices YoY in 2014 and a 2% increase in 2015.

Figure 2: ROE, net profit and coal volumes actual and forecast

Figure 2: ROE, net profit and coal volumes actual and forecast.

We have left our coal production and sales forecasts unchanged for 2014 until a further update is provided in March at the company’s annual review. Shenhua’s monthly updates have tracked well with our 2013 volume forecast.

The changing business mix downstream from coal has led to downwards pressure on profit margins. In addition, the tax rate and minority interest share are higher in these businesses.

China and regional thermal coal prices

Source: McCloskey; Maybank Kim Eng forecast. *Prices are high CV thermal coal (FOB basis 5,800 kcal for Qinhuangdao, China and 6,000 kcal for Newcastle, Australia).
Despite the flat profit outlook over the next two years, Shenhua’s cash flows remain strong. The company has significantly stepped up capital spending the past few years, particularly on the power and logistics segments. We forecast decreasing CAPEX spending and increasing free cash flows ahead.

We see FCF supporting healthy dividends (about 40% pay-out ratio) as well as M&A led growth as Shenhua seeks to diversify into new geographies and new, but related businesses. Thus far the diversification has been modest relative to its existing businesses.

**Figure 3: Free cash flow outlook**

Despite the shift to more logistics CAPEX, Shenhua’s core business remains strong and M&A has been conservative, thus far not altering the main drivers of its overall business.

But we think there are risks to diluting down the returns of the core business by continuously increasing third party coal sales at a higher rate than self-owned coal production.

Ideally, Shenhua should be acquiring high quality coal assets rather than simply leveraging its transport infrastructure for the coal of other producers.

Acquiring and consolidating coal assets and production would support profit margins compared to the dilutive impact of paying the market price for third party coal in northwest China and reselling it at the port in eastern China.
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Shenhua’s fully integrated business model has provided operating flexibility, which has helped it maintain industry low average unit coal costs. We see it likely that railway cargo rates will increase in the future to help fund the heavy debt burden and reduce losses at the state owned railway company. With its own railway line, Shenhua would benefit from rising coal prices that included higher transport costs for coal delivered on the public railways as its own costs would be unaffected.

At the end of 2013, Shenhua acquired a 100% interest in Baotou Coal Chemical and Jiujiang Power from its parent co. Baotou is principally engaged in the coal-based chemical processing business. The businesses were acquired for CNY9.32bn (USD1.5bn) based on an independent appraisal of the businesses and direct negotiations between Shenhua and its SOE parent. The majority of the valuation is attributed to Baotou Chemical equal to CNY9.27bn, with Jiujiang Power only CNY50mn. The purchase was paid out of the cash balances of Shenhua. We have added the businesses to our Shenhua estimates as of the beginning of 2014.

Baotou Chemical’s total assets were CNY13.5bn, total liabilities CNY8.3bn, and net assets Rmb5.1bn as of the end of September, 2013. The assets account for slightly less than 3% of Shenhua’s total assets as of June 30, 2013. Total revenues were CNY4.4bn for the nine month period of 2013, equal to about 2% of Shenhua’s revenues on a comparable period basis. After tax net profit was CNY714mn for the same nine month period, also equal to approximately 2% of Shenhua’s profit. Jiujiang Power’s total assets were CNY80.5mn and net assets CNY49.6mn as of the end of September, 2013. The company lost CNY0.391mn during the nine months of 2013.

One interesting example of modest asset diversification is the formation of a U.S. subsidiary (Shenhua Energy Inc.) for the development of 25 shale gas wells in Greene County, Pennsylvania with Energy Corporation of America (ECA). China Shenhua will contribute USD90m to its wholly-owned subsidiary China Shenhua Overseas Development & Investment Co., Ltd to finance Shenhua Energy Inc., which will act as the investment entity for the joint-venture.

ECA was established in 1963 as a private enterprise and is domiciled in West Virginia, with offices in Charleston. The company is engaged in the exploration, extraction, production, and transportation of natural gas and petroleum in the U.S. and worldwide. ECA’s total assets were USD914mn at year-end 2012, and revenues and net profit for the same year were USD345m and USD75m, respectively.

The total investment amount for the shale gas project is estimated at USD146m, of which the Overseas Company will contribute USD90m through Shenhua Energy and the remaining portion will be shared 50/50 by the overseas company and ECA. The target is shale gases consisting of methane at a depth of approximately 7,850-8,250 feet. The recoverable gas reserve is estimated at 134 billion cubic feet (3.8bn cubic metres) for the first 30 years.

We see it likely that railway cargo rates will increase in the future to help fund the heavy debt burden and reduce losses at the state owned railway company.

With its own railway line, Shenhua would benefit from rising coal prices that included higher transport costs for coal delivered on the public railways as its own costs would be unaffected.

Batou Chemical should be accretive by about 2% to EPS starting from 2014. However, we have a hard time seeing the long-term rationale for a business where costs are high to convert coal and one that is based on scarce water resources.

We reserve judgement on the shale gas exploration initiative, which may simply end up as a learning experience in the method of extraction and development.
Coal supply and demand growth slowing ahead

The thermal coal market continues to struggle with slowing demand growth and ample supply. Coal prices still outperformed our estimate of a 5% increase from the end of September to year-end by rising about 15% over the period from CNY570/t to CNY657/t (basis Qinhuangdao 5,800 kcal/t). But the price promptly fell 7% over the first two weeks of this year after Shenhua priced 1Q14 contracts at a discount to quoted market prices, which appeared to misrepresent actual market clearing prices.

Total power demand growth appears to be easing to a more sustainable 7-9% per annum growth, with the portion attributed to thermal power plants still high at 10-12%, but is likely to slow further to lower than the total power demand growth rate in the longer-term. Inventory at power plants measured in days is above normal at 22 compared to prior periods (see margin graphs). We believe coal inventory is sufficient for the high winter demand period and expect coal demand to slacken until the summer. This is reflected in our forecast 5% decrease in coal prices from now until the end of June.

Efforts to consolidate the coal supply in China have been redoubled in light of the oversupply of coal in the market and low prices. Recent news articles indicated a private coal miner in Shanxi Province may default on its issuance of a USD500m trust-loan product distributed through ICBC. Coal production growth turned negative during 1H13 but has since returned to low single-digit growth (see graph below). The table in the margin indicates a significant decrease in coal production in Inner Mongolia and a slower rate of growth in Shanxi. The data indicates a rebound in production on a monthly basis from low levels earlier this year, perhaps due to the rise in coal prices later in the year.

Our forecast for the aggregate coal market in China is contained in the table below showing our estimates of consumption, trade, and inventory. We forecast thermal coal demand growth to fall in half over the ensuing eight years through 2020 to about 100 million tonnes/yr. compared to the prior period from 2004-2012. The main drivers of the reduction in coal demand are slowing thermal power plant build rates due to measures to reduce pollution (move to green energy), and lower energy intensity due to slowing industrial demand growth. Competing energy sources are hydro, nuclear, wind, and gas. We forecast that the share of total power generation from thermal power will remain high, but decrease from about 70% in 2012 to about 60% in 2020.
Valuation

Our HKD25 target price is based on a 20% discount to our DCF valuation of HKD31/sh, revised down from a previous 10% discount and a DCF of HKD32/sh. The larger discount reflects the downward revision in our EPS estimates and the weaker profit growth trend in the next two years. Shenhua’s cash flows remain strong, which has supported the DCF valuation and our continued BUY recommendation. Even with a 20% discount to reflect current weak market conditions the stock appears inexpensive.

Our DCF assumes an 11.2% WACC, a 2.5% long-term growth rate, and a coal price of CNY585/t (basis Qinhuangdao 5,800 kcal/t) in our terminal year of 2017 vs. the current price of CNY620/t. Our target price corresponds to a PBR of 1.25x our forecast 2014 book value, which we see as fair in light of our forecast ROE of 14.5%, revised down from our previous estimate of a 15.8% ROE (and 1.4x PBR).

Comparison to global coal industry group

The following graphs indicate Shenhua’s position relative to global coal companies on three metrics using consensus forecasts: ROE, 2014 PBR, and 2014 EV/EBITDA. Shenhua’s ROE is among the highest in the industry, though it has fallen a few percent over the past few years due to the corporate strategy of adding third party coal sales volumes and lower coal prices during 2013 YoY.

The second graph below ranks Shenhua’s PBR, the position of which appears consistent to its ranking on ROE. But Shenhua’s PBR appears a bit low at 1.1x relative to its ROE considering the historical trend, a graph of which is shown in the upper right margin.

The third graph below ranks Shenhua on EV/EBITDA, on which measure the company’s position appears quite low. This appears inconsistent given Shenhua’s high ROE and strong market position relative to the peer group. We think one aspect of this undervaluation is due to the wider discount of China shares vs. the global peer group, particularly vs. those in the U.S.

However, if investors are applying a hefty risk premium to Chinese stocks, why is it particularly true for Shenhua, whose valuation on this measure is below Yanzhou and China Coal? Perhaps a better explanation can be obtained by analysing the factors behind the relatively low multiples within the mining sector of the large diversified mining companies BHP,
China Shenhua Energy

Vale, and Rio. These companies have lower earnings and share price volatility compared to the smaller single commodity producers due to their quality low cost asset bases and relatively stable profit margins. Therefore, they have garnered lower average earnings multiples throughout the cycle compared to smaller companies who experience very low/negative earnings at the bottom of the cycle.

By comparison, Shenhua has fallen from the ranks of quality growth cyclical due to the negative EPS trend and the structural issues facing the coal market (slowing consumption/fragmented supply). The business diversification plan being pursued by management has helped stabilize the company’s earnings and share price despite falling coal prices, but it has come at a cost. The next step is for management to return the company to a path of quality growth by stabilizing profit margins. Otherwise, the current path will lead to a further erosion of the valuation multiple as the company develops into a broad industrial benchmark with industry average profit margins and low/no profit growth.

Shenhua ranks highly on ROE and PBR vs. the global peer group, but low on EV/EBITDA. Its low EV multiple is more akin to a mature cyclical company with slow but stable growth.

But in the case of Shenhua, the EV multiple will remain low vs. the peer group unless it stabilizes the ROE and finds profitable growth alternatives.

Is it a stable growth company or cyclical play on commodity prices? Its valuation reflects neither basket at the current time.
Figure 6: ROE of selected global coal companies based on 2014 consensus data*

Figure 7: Price to Book value ratios of selected global coal companies based on 2014 consensus data*

Figure 8: EV/EBITDA ratios of selected global coal companies based on 2014 consensus data*

Source: Bloomberg Consensus.
## China Shenhua Energy

### Key Metrics

<table>
<thead>
<tr>
<th></th>
<th>FY11A</th>
<th>FY12A</th>
<th>FY13E</th>
<th>FY14E</th>
<th>FY15E</th>
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<tbody>
<tr>
<td>P/E (reported) (x)</td>
<td>7.4</td>
<td>6.9</td>
<td>7.7</td>
<td>7.8</td>
<td>7.5</td>
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<tr>
<td>Core P/E (x)</td>
<td>7.4</td>
<td>6.9</td>
<td>7.7</td>
<td>7.8</td>
<td>7.5</td>
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<tr>
<td>P/BV (x)</td>
<td>1.5</td>
<td>1.3</td>
<td>1.2</td>
<td>1.1</td>
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<td>P/NTA (x)</td>
<td>1.1</td>
<td>1.0</td>
<td>0.8</td>
<td>0.8</td>
<td>0.7</td>
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<td>Net dividend yield (%)</td>
<td>5.3</td>
<td>5.7</td>
<td>5.1</td>
<td>5.0</td>
<td>5.2</td>
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<tr>
<td>FCF yield (%)</td>
<td>7.7</td>
<td>5.0</td>
<td>7.5</td>
<td>10.7</td>
<td>15.4</td>
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<tr>
<td>EV/EBITDA (x)</td>
<td>6.9</td>
<td>6.9</td>
<td>4.8</td>
<td>4.5</td>
<td>4.1</td>
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<tr>
<td>EV/EBIT (x)</td>
<td>8.3</td>
<td>8.7</td>
<td>6.1</td>
<td>5.8</td>
<td>5.2</td>
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### Income Statement

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<th>FY13E</th>
<th>FY14E</th>
<th>FY15E</th>
</tr>
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<tr>
<td>Sales</td>
<td>209,225.0</td>
<td>250,260.0</td>
<td>264,526.0</td>
<td>279,905.7</td>
<td>297,799.7</td>
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<td>Gross profit</td>
<td>80,587.0</td>
<td>82,506.0</td>
<td>82,553.4</td>
<td>86,250.7</td>
<td>89,557.6</td>
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<td>EBITDA</td>
<td>84,531.0</td>
<td>87,754.0</td>
<td>87,810.3</td>
<td>90,957.0</td>
<td>93,604.0</td>
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<td>Depreciation</td>
<td>(14,992.1)</td>
<td>(17,141.7)</td>
<td>(18,278.1)</td>
<td>(18,752.9)</td>
<td>(18,856.3)</td>
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<td>Amortisation</td>
<td>(832.9)</td>
<td>(1,008.3)</td>
<td>(1,142.4)</td>
<td>(1,250.2)</td>
<td>(1,346.9)</td>
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<td>EBIT</td>
<td>68,706.0</td>
<td>69,604.0</td>
<td>68,389.8</td>
<td>70,953.9</td>
<td>73,400.9</td>
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<td>Net Interest Income /exp</td>
<td>(2,204.0)</td>
<td>(2,071.0)</td>
<td>(2,383.8)</td>
<td>(2,080.8)</td>
<td>(1,600.4)</td>
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<td>Associates &amp; JV</td>
<td>346.0</td>
<td>477.0</td>
<td>500.0</td>
<td>500.0</td>
<td>500.0</td>
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<td>Exceptional</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>Pretax profit</td>
<td>66,849.0</td>
<td>68,011.0</td>
<td>66,827.0</td>
<td>69,373.1</td>
<td>72,300.5</td>
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<td>Income tax</td>
<td>(14,041.0)</td>
<td>(10,965.0)</td>
<td>(12,769.8)</td>
<td>(13,874.6)</td>
<td>(14,460.1)</td>
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<td>Minori ties</td>
<td>(6,962.0)</td>
<td>(8,188.0)</td>
<td>(10,280.8)</td>
<td>(12,487.2)</td>
<td>(13,014.1)</td>
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<td>Reported net profit</td>
<td>45,846.0</td>
<td>48,858.0</td>
<td>43,776.4</td>
<td>43,011.3</td>
<td>44,826.3</td>
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<tr>
<td>Core net profit</td>
<td>45,846.0</td>
<td>48,858.0</td>
<td>43,776.4</td>
<td>43,011.3</td>
<td>44,826.3</td>
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### Balance Sheet

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<tr>
<th></th>
<th>FY11A</th>
<th>FY12A</th>
<th>FY13E</th>
<th>FY14E</th>
<th>FY15E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Short Term Investments</td>
<td>61,652.0</td>
<td>51,627.0</td>
<td>33,851.1</td>
<td>44,885.0</td>
<td>77,342.7</td>
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<td>Property, Plant &amp; Equip (net)</td>
<td>223,329.0</td>
<td>236,048.0</td>
<td>279,901.8</td>
<td>297,262.1</td>
<td>310,375.1</td>
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<tr>
<td>Intangible assets</td>
<td>3,610.0</td>
<td>3,781.0</td>
<td>3,800.0</td>
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<tr>
<td>Investment in Associates &amp; JVs</td>
<td>3,992.0</td>
<td>4,689.0</td>
<td>5,000.0</td>
<td>5,000.0</td>
<td>5,000.0</td>
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<td>Other assets</td>
<td>113,924.0</td>
<td>161,222.0</td>
<td>190,332.8</td>
<td>189,012.7</td>
<td>177,085.8</td>
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<tr>
<td>Total assets</td>
<td>406,507.0</td>
<td>457,367.0</td>
<td>512,885.8</td>
<td>539,959.8</td>
<td>573,603.6</td>
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<td>ST interest bearing debt</td>
<td>16,489.0</td>
<td>28,093.0</td>
<td>28,000.0</td>
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<td>LT interest bearing debt</td>
<td>45,443.0</td>
<td>39,624.0</td>
<td>33,151.0</td>
<td>28,151.0</td>
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<td>Other liabilities</td>
<td>76,461.0</td>
<td>83,093.0</td>
<td>113,833.8</td>
<td>113,927.3</td>
<td>114,220.0</td>
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<tr>
<td>Total Liabilities</td>
<td>138,393.0</td>
<td>150,810.0</td>
<td>174,984.8</td>
<td>170,078.3</td>
<td>170,371.0</td>
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<td>Shareholders Equity</td>
<td>228,199.0</td>
<td>256,589.0</td>
<td>287,938.0</td>
<td>308,529.5</td>
<td>335,373.5</td>
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<tr>
<td>Minority Interest</td>
<td>39,915.0</td>
<td>49,968.0</td>
<td>55,108.4</td>
<td>61,352.0</td>
<td>67,859.0</td>
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<td>Total shareholders equity</td>
<td>268,114.0</td>
<td>306,557.0</td>
<td>343,046.4</td>
<td>369,881.5</td>
<td>403,232.6</td>
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### Cash Flow

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<th>FY11A</th>
<th>FY12A</th>
<th>FY13E</th>
<th>FY14E</th>
<th>FY15E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pretax profit</td>
<td>66,849.0</td>
<td>68,011.0</td>
<td>66,827.0</td>
<td>69,373.1</td>
<td>72,300.5</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>15,825.0</td>
<td>18,150.0</td>
<td>19,420.5</td>
<td>20,003.1</td>
<td>20,203.1</td>
</tr>
<tr>
<td>Adj net interest (income)/exp</td>
<td>(88.0)</td>
<td>(239.0)</td>
<td>2,534.8</td>
<td>2,080.8</td>
<td>1,600.4</td>
</tr>
<tr>
<td>Change in working capital</td>
<td>498.0</td>
<td>1,394.0</td>
<td>4,443.3</td>
<td>(3,742.4)</td>
<td>6,211.9</td>
</tr>
<tr>
<td>Cash taxes paid</td>
<td>(11,830.0)</td>
<td>(14,689.0)</td>
<td>(12,769.8)</td>
<td>(13,874.6)</td>
<td>(14,460.1)</td>
</tr>
<tr>
<td>Other operating cash flow</td>
<td>(305.0)</td>
<td>(784.0)</td>
<td>(792.0)</td>
<td>(500.0)</td>
<td>(500.0)</td>
</tr>
<tr>
<td>Cash flow from operations</td>
<td>70,949.0</td>
<td>69,055.0</td>
<td>79,663.8</td>
<td>73,340.0</td>
<td>85,355.8</td>
</tr>
<tr>
<td>Capex</td>
<td>(45,082.0)</td>
<td>(52,256.0)</td>
<td>(54,506.0)</td>
<td>(37,363.9)</td>
<td>(33,316.2)</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>25,867.0</td>
<td>16,799.0</td>
<td>25,157.8</td>
<td>35,976.7</td>
<td>52,039.7</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(14,917.0)</td>
<td>(17,901.0)</td>
<td>(19,094.0)</td>
<td>(17,072.8)</td>
<td>(16,774.4)</td>
</tr>
<tr>
<td>Equity raised / (purchased)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Change in Debt</td>
<td>(16,493.0)</td>
<td>1,565.0</td>
<td>(6,566.0)</td>
<td>(5,000.0)</td>
<td>0.0</td>
</tr>
<tr>
<td>OTH investing/financing cash flow</td>
<td>(10,096.0)</td>
<td>(10,491.0)</td>
<td>(17,273.6)</td>
<td>(2,870.1)</td>
<td>(2,807.6)</td>
</tr>
<tr>
<td>Effect of exch rate changes</td>
<td>(11.0)</td>
<td>3.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>(15,650.0)</td>
<td>(10,025.0)</td>
<td>(17,775.9)</td>
<td>11,033.9</td>
<td>32,457.7</td>
</tr>
</tbody>
</table>
## China Shenhua Energy

### Key Ratios

<table>
<thead>
<tr>
<th>Growth ratios (%)</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
<th>FY15E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth</td>
<td>32.7</td>
<td>19.6</td>
<td>5.7</td>
<td>5.8</td>
<td>6.4</td>
</tr>
<tr>
<td>EBITDA growth</td>
<td>18.7</td>
<td>3.8</td>
<td>0.1</td>
<td>3.6</td>
<td>2.9</td>
</tr>
<tr>
<td>EBIT growth</td>
<td>19.4</td>
<td>1.3</td>
<td>(1.7)</td>
<td>3.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Pretax growth</td>
<td>19.5</td>
<td>1.7</td>
<td>(1.7)</td>
<td>3.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Reported net profit growth</td>
<td>18.1</td>
<td>6.6</td>
<td>(10.4)</td>
<td>(1.7)</td>
<td>4.2</td>
</tr>
<tr>
<td>Core net profit growth</td>
<td>18.1</td>
<td>6.6</td>
<td>(10.4)</td>
<td>(1.7)</td>
<td>4.2</td>
</tr>
</tbody>
</table>

### Profitability ratios (%)

| EBITDA margin     | 40.4 | 35.1 | 33.2 | 32.5 | 31.4 |
| EBIT margin       | 32.8 | 27.8 | 25.9 | 25.3 | 24.6 |
| Pretax profit margin | 32.0 | 27.2 | 25.3 | 24.8 | 24.3 |
| Payout ratio      | 39.0 | 39.1 | 39.0 | 39.0 | 39.0 |

### DuPont analysis

| Net profit margin (%) | nm  | 19.5 | 16.5 | 15.4 | 15.1 |
| Sales/Assets (x)      | 0.5 | 0.5  | 0.5  | 0.5  | 0.5  |
| Assets/Equity (x)     | 1.8 | 1.8  | 1.8  | 1.8  | 1.7  |
| ROAE (%)              | 18.1 | 17.0 | 13.5 | 12.1 | 11.6 |
| ROAA (%)              | 11.8 | 11.3 | 9.0  | 8.2  | 8.1  |

### Liquidity & Efficiency

| Cash conversion cycle | nm  | nm  | 2.8  | 8.9  | 8.2  |
| Days receivable outstanding | 21.5 | 24.2 | 28.7 | 31.3 | 33.2 |
| Days inventory outstanding | 34.3 | 30.2 | 37.0 | 40.0 | 37.5 |
| Days payables outstanding | 60.8 | 58.8 | 62.9 | 62.5 | 62.5 |
| Dividend cover (x)      | 2.6 | 2.6  | 2.6  | 2.6  | 2.6  |
| Current ratio (x)       | 1.2 | 1.1  | 0.9  | 1.0  | 1.2  |

### Leverage & Expense Analysis

| Asset/liability (x)   | 2.9 | 3.0  | 2.9  | 3.2  | 3.4  |
| Net debt/equity (%)   | 0.1 | 6.3  | 9.5  | 3.7  | nm   |
| Net interest cover (x) | 31.2 | 33.6 | 28.7 | 34.1 | 45.9 |
| Debt/EBITDA (x)       | 0.7 | 0.8  | 0.7  | 0.6  | 0.6  |
| Capex/sales (%)       | 21.5 | 20.9 | 20.6 | 13.3 | 11.2 |
| Net debt/ (net cash)  | 280.0 | 16,090.0 | 27,299.9 | 11,266.0 | (21,191.7) |
Research Offices

REGIONAL

WONG Chew Hain, CA
Regional Head of Institutional Research
(603) 2297 8866 wchew@maybank-ib.com

ONG Seng Yok
Regional Head of Retail Research
(603) 6422 4543 ongsengyok@maybank-ke.com.sg

Aлександр ГАРТОФ
Institutional Product Manager
(852) 2268 0388 alexandergarthoff@kimeng.com.hk

YIN Shao Yang,
(603) 2297 8692 mohshin.aziz@maybank-ib.com

Mohshin AZIZ
• Plantations - Regional • Power • Telcos
(603) 2297 8690 chiwei.t@maybank-ib.com

• Gaming – Regional • Media
(603) 2297 8916 samuel.y@maybank-ib.com

ONG Chee Ting,
(603) 2297 8680

LIAW Thong Jung
(603) 2297 8675

ONG Kian Lin
(603) 2297 8684 lishin.c@maybank-ib.com

HONG KONG / CHINA

HOWARD WONG Head of Research
(852) 2268 0648 howardwong@kimeng.com.hk

• Oil & Gas • Regional

Alexander LATZER
(852) 2268 0647 alexanderalitzer@kimeng.com.hk

• Metals & Mining - Regional

Allison FOK
(852) 2268 0630 allisonfok@kimeng.com.hk

• Consumer

Jacqueline KO, CFA
(852) 2268 0633 jacquelineko@kimeng.com.hk

• Consumer

Karen KWAN
(852) 2268 0640 karenkwang@kimeng.com.hk

• Property & REITs

Osebt TK TANG, CFA
(86) 21 5076 8370 osebtang@kimeng.com.hk

• Transport & Industrials

Philip TSE, CFA FRM
(852) 2268 0645 philipptse@kimeng.com.hk

• Property & REITs

Ricky WU, CFA
(852) 2268 0689 rickwyug@kimeng.com.hk

• Utilities & Renewable Energy

Simon QIAN, CFA
(852) 2268 0634 simonqian@kimeng.com.hk

• Telecom & Internet

Steven ST CHAN
(852) 2268 0645 stevenchan@kimeng.com.hk

• Banking & Financials

Warren Lau
(852) 2268 0664 wearrenlau@kimeng.com.hk

• Technology - Regional

William YANG
(852) 2268 0675 williamyang@kimeng.com.hk

• Technology - Regional

INDIA

Jigar SHAH Head of Research
(91) 22 6623 2601 jigar.shah@maybank-ke.co.in

• Oil & Gas • Automobile • Cement

Anubhav GUPTA
(91) 22 6623 2605 anubhavgupta@maybank-ke.co.in

• Metall & Mining • Capital Goods • Property

Urmil SHAH
(91) 22 6623 2606 urmilshah@maybank-ke.co.in

• Technology & Media

SINGAPORE

NO Wee Sing Head of Research
(65) 6422 1467 noweesing@maybank-ke.com.sg

• Banking & Finance

Gregory YAP
(65) 6422 1450 gregoryyap@maybank-ke.com.sg

• SMD Caps. • Regional

Technology & Manufacturing • Telcos

Wilson LIEW
(65) 6422 1454 wilsonliew@maybank-ke.com.sg

• Property Developers

ONG Kian Lin
(65) 6422 1470 ongkianlin@maybank-ke.com.sg

• S REITs

James KOH
(65) 6422 1431 jameskoh@maybank-ke.com.sg

• Consumer • Regional

YEAK Chee Keong, CFA
(65) 6422 1460 yeakcheekkeong@maybank-ke.com.sg

• Consumer • Marine

Derrick HENG
(65) 6422 1446 derrickheng@maybank-ke.com.sg

• Transport (Land, Shipping & Aviation)

WER Bin
(65) 6422 1455 weerbin@maybank-ke.com.sg

• Commodity • Logistics • S chips

John CHEONG
(65) 6422 1461 johncheong@maybank-ke.com.sg

• Small & Mid Caps • Healthcare

INDONESIA

William IE Head of Research
(62) 21 2577 1125 williamie@maybank-ke.co.id

• Strategy

Rahmi MARINA
(62) 21 2577 1128 rahmill.marina@maybank-ke.co.id

• Banking & Finance

Aurelia SETIABUDI
(62) 21 2573 0785 aureliasetiabudi@maybank-ke.co.id

• Property

Anthony YUNUS
(62) 21 2577 1136 anthonyyus@maybank-ke.co.id

• Consumer • Poultry

Isnaputra ISKANDAR
(62) 21 2577 1129 isnaputra.iskandar@maybank-ke.co.id

• Metals & Mining • Cement

Pandy ANUGRAH
(62) 21 2577 1117 pandy.anugrahp@maybank-ke.co.id

• Infrastructure • Construction • Transport

Jann ASMAN
(62) 21 2573 0784 jann.asman@maybank-ke.co.id

• Cigarette • Healthcare • Retail

Lucy ARIELI, CFA
(62) 21 2577 1127 lucyarieli@maybank-ke.co.id

• Telesis • Media

PHILIPPINES

EREZ LOZANO Head of Research
(63) 2 849 8836 luz_lorenzo@maybank-atrke.com

• Strategy

Laura Dy-LACCO
(63) 2 849 8840 laura_dylacco@maybank-atrke.com

• Utilities • Commerces • Telcos

Lovell SARRAL
(63) 2 849 8840 lovel_lovec@maybank-atrke.com

• Consumer • Media • Cement

Rommel RODRIGO
(63) 2 849 8839 rommel_rodrigo@maybank-atrke.com

• Consumer • Media • Telcos

Termporn TANTIVIVAT
(66) 2577 1127 termporn@maybank-ke.co.th

• Strategy

Sittichai DUANGRATTANACHAYA
(66) 2577 1127 sittichai@maybank-ke.co.th

• Consumer

Wilianto IE
(66) 2577 1127 wilianto@maybank-ke.co.th

• Strategy

Laura Dinh QUANG
(84) 844 55 58 88 sulli.chinh@maybank-ke.com.vn

• Consumer • Manufacturing • Construction

TRUNG Thanh HANG
(84) 844 55 58 88 b085 hang.truong@maybank-ke.com.vn

• Outdoor & Sports • Retail

THAI Quang Trung, CFA
(84) 844 55 58 88 thuan.truong@maybank-ke.com.vn

• Strategy • Consumer • Retail

Sukit.u@maybank-ke.com.th

• Manufacturing • Construction

Lucas RAMUALCHAROENKIT
(84) 844 55 58 88 leedinh@maybank-ke.com.vn

• Oil & Gas

NAY Sinhavong, CA
(84) 844 55 58 88 sinsinhavong@maybank-ke.com.vn

• Strategy • Consumer • Retail

Sukit.u@maybank-ke.com.th

• Consumer • Retail

SAWAD CHATRAKUL
(84) 844 55 58 88 sawadchatarakul@maybank-ke.com.vn

• Food & Beverage • Retail

SUKMAMITTA
(84) 844 55 58 88 sukmamitta@maybank-ke.com.vn

• Manufacturing • Construction

SUWAN ROOPKRAM
(84) 844 55 58 88 suwanroopkram@maybank-ke.com.vn

• Oil & Gas • Retail

SUKPHONG
(84) 844 55 58 88 sukphong@maybank-ke.com.vn

• Manufacturing • Construction
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