

China State Construction International (CSCI)

3311 HK

Share price (17 Mar): **HKD10.88**12-mth rating: **Buy (1)**Target price: **HKD17.4**

Positive on HK Exco's approval of 3rd runway construction, a good step forward

Kelvin Lau(852) 2848 4467
kelvin.lau@hk.daiwacm.com**■ What's new**

The Executive Council of Hong Kong has approved the construction of the third airport runway in which the total investment is expected to reach HK\$141.5 bn. The project would be funded internally through the airport's surpluses, airport charges for airlines, additional passenger charge (airport construction fee recommended at HK\$180 per visitor), and external financing through the issuance of bonds. The airport may also forfeit annual dividends to the Hong Kong government, its largest shareholder, to save cash. The construction is expected to start in 2016, and complete in 2023.

■ Analysis

Political instability in 2014 has caused some delays in the government approval process and failure in bidding on projects, including some contracts related to the Shatin-Central Railway Link. However, as the current plan does not involve taxpayer money, the budget would not require approval from the Legislative Council. Therefore we expect the bidding

process to have chance to start in late 2015 or early 2016.

Among all H-share companies, we believe CSCI is one of the major beneficiaries of the 3rd runway construction. Apart from the 3rd runway, we expect continued contract wins for CSCI from Shatin-Central MTR link, Hopewell phase 2, and some public housing and reclamation projects later this year.

Apart from CSCI, the construction of 3rd runway is also slight positively for Cathay Pacific (293 HK, HK\$17.04, Hold (3)), in strengthening the airline's hub status of Hong Kong, in our view.

■ Recommendation

We have a Buy (1) rating on CSCI and a 12-month target price of HKD17.4, based on a 2016E PER of 11.0x, a 20% discount to its past-3-year average PER. CSCI is currently our top sector pick. We expect steady contract wins news from CSCI on the accelerated approval of government projects in 2015. The major risk to our call would be if the government's relocation-housing scheme were to slow down unexpectedly.

In the interests of timeliness, this document has not been edited.

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