



SECTOR CONSTRUCTION

A chance to rebuild profits

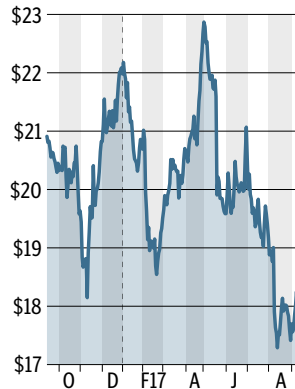
Hurricane repairs in the US may help offset a slump in the apartment market here

Recently, Australia's richest man and its biggest apartment developer, the property billionaire Harry Triguboff, cited slowing foreign investor interest as a reason for his observation that "the slowdown in the apartment market is worsening", adding the number of new apartments sold had dropped and prices had fallen about 10% over the past six months.

Separately, investment bank UBS reported the results of a survey of almost 1000 Australian mortgage holders who borrowed in the 12 months to August 2017, noting: "Our 2017 survey found factually accurate mortgage applications fell to just 67%. There are now about \$500 billion in 'liar loans' on the banks' books."

Meanwhile, interest-only mortgages increased from around 35% of total originations in 2013 to a peak of 46% in June 2015. APRA's decision to cap the proportion of new interest-only mortgages at 30% of total originations for each of the banks from July 1 this year means that in

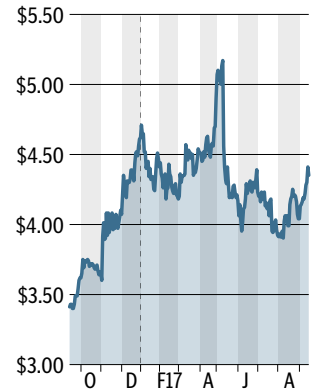
James Hardie share price



Boral share price



CSR share price



just 2½ years the loans originated in July 2015 (46% of which were interest-only) will need to be refinanced and many borrowers will be forced onto principle-and-interest mortgages with an associated increase in repayments of as much as 40% – even if interest rates don't rise.

Finally, a slump in approvals in recent months suggests a slump in the near future for construction activity in Australia.

But having said all that, hurricanes Harvey and Irma could prove a boon for international builders and building supply companies because Texas and Florida account for 14% and 10% respectively of the total US market for housing approvals.

Roger Montgomery is the founder and CIO at The Montgomery Fund. For his book, Value.able, see rogermontgomery.com.

1 James Hardie

James Hardie is an international manufacturer of building products. Texas accounts for almost 15% of revenue and the renovation market accounts for 60% of its North American revenue. The US storms will initially have a negative impact on sales. Production disruption could also impact revenues and sell-side analysts will lower their forecasts. If floodwaters are slow to recede and the company misses expectations, then a share price reaction may be an opportunity for those who believe in the company's participation in a subsequent rebuilding boom.

ASX code JHX

Price \$17.23
52wk ▲ \$23.20
52wk ▼ \$17.17
Mkt cap \$7.6bn
Dividend 41¢
Dividend yield 2.4%
PE ratio 21.24

HOLD

2 Boral

Since reporting its full-year results, the share price has fallen almost 10%. Investors appear to be concerned about the modest earnings growth anticipated by the company for the Australian division. But Boral Australia has also announced a series of price increases across concrete and cement, which, if combined with solid, persistent volumes associated with the government-announced infrastructure projects, may prove that revenues are less negatively impacted than some believe.

ASX code BLD

Price \$6.70
52wk ▲ \$7.14
52wk ▼ \$4.93
Mkt cap \$7.9bn
Dividend 24¢
Dividend yield 3.6%
PE ratio 22.95

HOLD

3 CSR

CSR is the company behind Gyprock plasterboard, Bradford insulation and Monier roof tiles, among many others. Since it announced its results, management has upgraded its expectations for housing, citing "solid" demand compared with "steady" previously. But don't read too much into semantics. Price rises (about 35% for plasterboard) are expected to offset energy cost increases of circa \$20 million this financial year. While high-rise apartment building (12% revenue exposure) may be softening, management suggests single family housing is relatively stable.

ASX code CSR

Price \$4.41
52wk ▲ \$5.24
52wk ▼ \$3.38
Mkt cap \$2.2bn
Dividend 26¢
Dividend yield 5.9%
PE ratio 12.51

HOLD

Prices in charts as at close of business, 14-Sep-17. Prices in charts as at close of business, 15-Sep-17.