

Construction

Overweight (Maintain)

2H19 economic policy direction signals positive changes

- Government's economic policy direction for 2H19 focuses on boosting investments in the public and private sectors
- More spending should lead to more domestic construction orders
- Increase in public sector orders positive to construction/cement; Plans to promote indirect real estate investments should support growth of publicly traded REITs

Government's economic policy direction for 2H19 focuses on boosting investments

The government's economic policy direction for 2H19 is largely focused on boosting investments. In an effort to counter downside risks to growth, the government is looking to expand fiscal spending and promote investments in both the private and public sectors. Specific measures include doubling the tax credit rates for private sector investments and expanding the scope of facilities eligible for accelerated depreciation. The government will also provide support for the expedited construction of over W10tr worth of private sector projects, including the Hwaseong International Theme Park (W4.6tr) and the Daesan Petrochemical Complex (W2.7tr).

Public sector spending is also expected to gather pace, as the government plans to swiftly execute W2.9tr worth of spending on community-type social overhead capital (SOC) and expedite the approval and construction process for the W13tr Great Train Express (GTX) project. In addition, around W3.6tr will be spent on outdated infrastructure (roads, drainage systems, waterworks, etc.), and another W1.7tr will be invested in environmental and safety projects.

More spending to lead to more construction orders

We believe the government made investment its top priority because of the impact construction spending can have on short-term economic growth. And unlike exports, investments can be directly controlled by the government through policy efforts. We thus believe the government will step up policies that spur investments to support the economy going forward. As investments increase in the private and public sectors, construction orders should also naturally grow. Furthermore, if apartment presales also increase, we could see a meaningful recovery in domestic construction orders.

Tighter household debt control, promotion of indirect real estate investments, supply of affordable housing, support for overseas infrastructure orders, and smart city construction

The latest government plan includes several policies that could have implications for the construction industry and real estate market. First, the government plans to expand debt service ratio (DSR) regulations to non-bank lenders and adopt counter-cyclical capital buffers in the retail banking sector in order to stabilize household debt. We believe such measures underscore the government's determination to prevent liquidity from flowing into the property market amid falling interest rates. The government will also introduce a real estate exposure management system. On the other hand, the government intends to promote indirect real estate investments, such as REITs, by expanding opportunities to acquire quality assets (including government-owned buildings) and providing tax incentives (detailed plan to be announced in July).

The government also plans to: 1) announce an overseas infrastructure order strategy this month; 2) develop government office buildings into multi-use facilities and assist in the renovation of old homes in order to support housing for young people; and 3) begin construction of a trial smart city (Busan) and unveil more detailed measures for expansion of smart cities overseas.

APPENDIX 1

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Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (→), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

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* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	83.14%	8.72%	8.14%	0.00%
Investment Banking Services	77.78%	11.11%	11.11%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2019)

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Mirae Asset Daewoo International Network

Mirae Asset Daewoo Co., Ltd. (Seoul)
Global Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.
810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

PT. Mirae Asset Sekuritas Indonesia
Equity Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-53 Jakarta Selatan
12190
Indonesia
Tel: 62-21-515-3281

Mirae Asset Securities Mongolia UTsk LLC
#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office
38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area Shanghai
200120
China

Tel: 86-21-5013-6392

Mirae Asset Securities (HK) Ltd.
Suites 1109-1114, 11th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
China
Tel: 852-2845-6332

Mirae Asset Wealth Management (USA) Inc.
555 S. Flower Street, Suite 4410,
Los Angeles, California 90071
USA

Tel: 1-213-262-3807

Mirae Asset Securities (Singapore) Pte. Ltd.
6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd
2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699

Ho Chi Minh Representative Office
7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Securities (UK) Ltd.
41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

Mirae Asset Wealth Management (Brazil) CCTVM
Rua Funchal, 418, 18th Floor, E-Tower Building Vila
Olimpia
Sao Paulo - SP
04551-060
Brasil
Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) LLC
7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office
2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)