1BN) China Approves Roads-to-Subways Construction; Stocks Surge (1)

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(Updates stock gains in first, third paragraphs.)

By Jasmine Wang

Sept. 7 (Bloomberg) -- China approved plans to build 2,018 kilometers (1,254 miles) of roads, spurring the biggest stock- market rally in almost eight months on signs the government is stepping up stimulus efforts to revive economic growth.

The government also backed nine sewage-treatment plants, five port and warehouse projects, and two waterway upgrades, according to statements on the website of the National Development and Reform Commission yesterday. No investment amounts were given.

The Shanghai Composite Index closed 3.7 percent higher, led by construction stocks, on speculation infrastructure spending will help bolster growth that's cooled to the slowest pace in three years. The announcements came a day after approvals for subway projects in 18 cities, an earlier rise in the railway- building budget and increases in land supplies in cities including Guangzhou, Hangzhou, Beijing and Shanghai.

"They are clearly stepping up the infrastructure- investment push to help boost confidence and revive growth," said Zhang Zhiwei, Hong Kong-based chief China economist at Nomura Holdings Inc. Premier Wen Jiabao's policy stance is shifting "to a more proactive and significant easing."

The government may boost infrastructure-spending growth to an annual pace of more than 20 percent in the coming months from 15 percent to stimulate the economy, HSBC Holdings Plc economists Qu Hongbin and Sun Junwei said in a note yesterday.

Announcement Timing

Growth in gross domestic product may rebound next quarter as the investments filter through, Nomura's Zhang said. The timing of the announcements also shows that the government wants to boost confidence as the projects had been accepted previously, he said. The new road projects, which include highways in Zhejiang and Xinjiang provinces, were approved as early as June.

"China's central government finally took real actions to arrest the worsening slowdown," Bank of America Corp. economist Lu Ting said in a note. "Adding home supply and improving urban infrastructure are the two best ways to contain home prices, speed up urbanization and increase social welfare."

Anhui Conch Cement Co., the nation's biggest cement-maker by market value, rose by the 10 percent limit in Shanghai, the most since July 2010, to close at 15.07 yuan. Sany Heavy Industry Co., China's biggest construction-equipment maker, also jumped 10 percent. Second-ranked Zoomlion Heavy Industry Science & Technology Co. rose by the same amount in Shenzhen.

Lonking Holdings Ltd., which makes wheel loaders and road rollers, surged 20 percent in Hong Kong, the most in almost four years, to close at HK$1.21. Builder China Communications Construction Co. rose 6.1 percent.

Shanghai Disney

The approvals on Sept. 5 for a total of 25 new subway and inter-city rail projects are worth more than 800 billion yuan
($126 billion), or 1.7 percent of 2011 gross domestic product, according to HSBC. The spending will run from the second half of the year to 2018, it said.

Among the approvals, Shanghai got the go-ahead for an expansion of previously approved metro-line projects. About 16.8 billion yuan of new spending, including a 4.4 billion-yuan line extension to the planned Disney theme park, was added to an existing plan.

The NDRC backing may accelerate metro-rail developments, most of which were already in local governments' plans, Citigroup Inc. analysts Jenny Zhen and Paul Gong said in a note to clients yesterday.

"This sentiment is positive for the whole railway- construction and equipment sector," they said.

Rail Stocks

Rail stocks rose for a second day after the subway approvals. CSR Corp Ltd., China's biggest trainmaker by market value, rose 3.7 percent in Hong Kong after surging 8.8 percent yesterday. China Railway Construction Corp. gained 4.2 percent and China Railway Group Ltd. climbed 1.6 percent. The benchmark Hang Seng Index jumped 3.1 percent.

Reinforcing steel-bar futures gained 4.1 percent in Shanghai to close at 3,406 yuan a metric ton.

The Chinese government also recently boosted plans for 2012 spending on railway construction to 496 billion yuan, according to China Railway Group. It is at least the third increase since the start of July when Premier Wen Jiabao said promoting investment growth is key to stabilizing economic expansion.

China's economy, the world's second-biggest, expanded 7.6 percent in the second quarter from a year earlier, the slowest pace in three years. Manufacturing slowed in August, according to surveys of purchasing managers, with one gauge at the lowest level since March 2009.

'Fine Tuning'

Premier Wen has pledged policy "fine tuning" to cope with a deepening slowdown as export gains slumped to an annual
1 percent pace in July from 11 percent in June. The trade deterioration escalated the risk that Wen will miss his full- year economic expansion target for the first time since he took office in 2003.

The construction push "seems to reflect that the economic data in the second half won't be great," said Vivian Liu, a Shanghai-based analyst with Sinopac Securities Asia Ltd. "The government has to rely on increased fixed asset investment to help economic growth."

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