Genedrive PLC

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Resource and travel sectors wield the biggest blades as companies slash capital expenditure

When money is tight, chief finance officers (CFOs) understandably look to cut capital expenditure (capex) - to the tune of £23bn according to broker Peel Hunt.

The broker has gone through the companies listed in the UK on a sector by sector basis to identify those where the axe has been swung especially hard. Totting the whole lot up gets you to that figure of £23bn, with 45% of it coming from just one sector.

As Peel Hunt notes, "the problem is that one company's reduced capex results in a reduction in turnover for many other companies," but it is an understandable reaction on the part of the bean-counters when there is no guarantee of an acceptable return on investment on money ploughed back into the business.

The cash flow of companies has been knocked for six by the coronavirus pandemic so it is encouraging before we get to the stars of this (capex) slasher movie to note that projected capital expenditure in the healthcare sector is more or less unchanged post-pandemic.

Some companies, such as genedrive PLC (LON:GDR) have even indicated they might need to spend a bit more to meet increased demand.

We are talking billions

In absolute pounds, dollars or euros terms, the big cuts are coming from the resource and travel sectors.

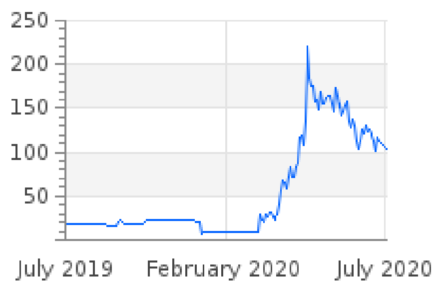
Peel Hunt observes that the miners "have discussed, if not actually quantified, capex reductions," with Anglo American PLC (LON:AAL) and BHP PLC (LON:BLT) standing out as giants who have not yet cut capex guidance.

Nevertheless, the broker still thinks between £2.7bn and £4.2bn has been lopped off planned capital expenditure and warns that this can only be a short-term fix.

Price: 105

Market Cap: £52.56 m

1 Year Share Price Graph



Share Information

Code:		GDR
Listing:		AIM
52 week	**High**	**Low**
	302.601	**6.25**
Sector:		**Pharma & Biotech**
Website:		**www.genedrive.com**

Company Synopsis:

Genedrive plc is a molecular diagnostics company developing and commercialising a low cost, rapid, versatile, simple to use and robust point of need molecular diagnostics platform for the diagnosis of infectious diseases and for use in patient stratification (genotyping), pathogen detection and other indications.

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"We have seen in previous cycles that reducing either mine development works or plant and equipment maintenance spending can lead to reduced output on a 12-24-month timeframe. A lack of mine development work can mean much reduced flexibility in the mine plan - potentially forcing no option but to mine through low-grade zones. Extended periods of reduced maintenance run the risk of reduced equipment availability as components wear and break down," the broker said.

In the oil & gas sector, a glut of supply and a collapse in demand led to a perfect storm in April, forcing the oil companies to make major cuts to their spending plans.

A total of £10.4bn has been slashed, with £9bn of that coming from Royal Dutch Shell PLC (LON:RDSB) and BP PLC (LON:BP.), which have reduced spending plans by £5bn and £4bn respectively.

In other circumstances, the transport sector - airlines, cruise operators, bus companies, truckers et al - would be cock-a-hoop over the collapsing oil price.

This time around? Not so much, for obvious reasons.

"The reduction in capex is likely to be substantial, an estimated £3.2bn, as demand for passenger travel has collapsed following the introduction of measures to restrict movements during the period of lockdown in the UK and nearly all European countries. By far the largest reductions are likely to come from the airlines and leisure travel and logistics operator Dart Group, as it has been the hardest hit by the response to the pandemic," Peel Hunt's boffins opined.

"All sectors are cyclical and we would expect capex to increase again as markets reopen and demand recovers," Peel Hunt added.

It expects the airline sector to consolidate and for the survivors - it does think there will be some - to thus take a bigger share of their markets.

We're talking mega percentages

In percentage terms, the big cuts are in consumer industries, oil & gas, retail, travel & leisure and (the ugly duckling) property sector; capex in the latter is projected to tumble by 75%.

The property - or real estate - sector had already seen a slowdown in planned spending as a result of uncertainty caused by Brexit and the slow death of the High Street.

What capex growth the sector has seen has been driven by industrial and logistics players, such as SEGRO PLC (SGRO), plus players in niches such as self-storage, healthcare and student accommodation,

"We generally expect companies to continue projects that have commenced, albeit at a slower pace due to social distancing," Peel Hunt ventured.

The retail sector's projected capex is down by 40% according to Peel Hunt's figures and the broker thinks it is possible we will see a second wave of cuts in the second half of the year depending on how quickly the lockdown situation ends.

"We view these as permanent cuts; even if there was a 'V-shaped' recovery, major capex projects would not restart until 2021 and there would be no catch-up. New store programmes are also being reviewed," the broker said.

If that is enough to drive you down the pub then that's good news for a sector that is badly in need of some cheery developments. Peel Hunt expects the travel & leisure sector will halve its capex, with pubs and restaurants facing the greatest uncertainty over closure periods.

Elsewhere in the sector, the broker assumes that cinemas operator Cineworld PLC's (LON:CINE) expansion and refurbishment plans are on ice.

As for Carnival PLC (LON:CCL), the cruise ships operator, it is expected to "muddle through", with the company possibly retiring "older, smaller, less-efficient ships to match capacity to demand in preference to cancelling the delivery of new ships".

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