

# Civmec Ltd (CVL SP)

## Steady delivery

### 2H22 profit exceeds expectations; keep BUY

Civmec's 2H22 net profit jumped 42.8 YoY to AUD28.2m, beating our and street expectations. Excluding the write-back of AUD1.3m for the previous impairment/revaluation losses, FY22 core earnings of AUD49.4m came in at 105% of MIBG/consensus' full-year estimates. The group declared a final DPS of AUD0.02, bringing total payout to AUD0.03 (+50% YoY). We raise our FY23-25E EPS by 1-2% on the back of a stronger net margin assumption. That said, we keep our 12-month TP at SGD1.00 (still based on 10x FY23E P/E) given the depreciating AUD against SGD. BUY.

### Rising operating leverage with higher margins

Turnover for 2H22 rose 14% YoY to AUD419.9m, mainly attributed to increased activity levels and the timing of revenue recognition of projects. GPM also improved by 0.6ppt to 11.6% on higher contributions from its marine & defence sector, as well as economies of scale. Going forward, we think margins should continue to expand as prices of raw materials have begun to stabilize or even decreased slightly. This, coupled with tight control on Opex and lower finance costs following its refinancing in Nov 2021, should flow directly through to the bottom line.

### Strong order book of >AUD1b provides visibility

Underpinned by robust contract wins across all sectors, we note that its order book remains on an upward trajectory (+3.3% YoY to AUD1.04b), of which the majority will be recognized in the next 12 months, with a portion of the secured order book extending as far as 2029. Given the buoyant tendering activity and taking into account its labour availability, management is now more selective and focused on growing the proportion of recurring income earned from long-term maintenance contracts.

### Continues to invest for future growth

As workload in the Gladstone region of Queensland ramps up, Civmec recently acquired a 28,510 m<sup>2</sup> land holding to establish a permanent facility. This will replace the leased facility it currently occupies and allow the group to expand its service offerings in the region. The plant will require capex of about AUD10m and be developed over the next 18 months. Meanwhile, the group has bolstered its balance sheet with the upward revaluation of its freehold land and buildings by AUD37.1m, thus increasing its NAV per share to almost AUD0.74 (+26.8% YoY).

FYE Jun (AUD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	674	809	831	856	873
EBITDA	71	91	93	97	100
Core net profit	32	49	52	54	55
Core FDEPS (AUD)	0.06	0.10	0.10	0.11	0.11
Core FDEPS growth(%)	140.4	52.1	5.9	3.3	2.3
Net DPS (AUD)	0.02	0.03	0.03	0.03	0.03
Core FD P/E (x)	10.0	6.4	6.5	6.3	6.1
P/BV (x)	1.1	0.8	0.8	0.8	0.7
Net dividend yield (%)	3.1	4.8	4.4	4.4	4.4
ROAE (%)	11.7	15.3	13.4	12.7	11.9
ROAA (%)	5.3	7.3	7.0	6.9	6.7
EV/EBITDA (x)	4.9	3.9	3.7	3.2	2.7
Net gearing (%) (incl perps)	7.6	11.8	1.7	net cash	net cash
Consensus net profit	-	-	53	56	56
MKE vs. Consensus (%)	-	-	(1.3)	(4.1)	(0.9)

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# BUY

Share Price	SGD 0.65
12m Price Target	SGD 1.00 (+55%)
Previous Price Target	SGD 1.00

### Company Description

Civmec is a construction and engineering services provider to the Resources, Energy, Infrastructure, Marine & Defence sectors

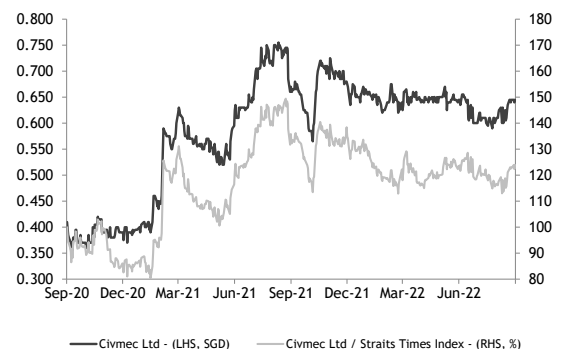
### Statistics

52w high/low (SGD)	0.73/0.57
3m avg turnover (USDm)	0.0
Free float (%)	48.6
Issued shares (m)	502
Market capitalisation	SGD323.8M
	USD232M

### Major shareholders:

Fitzgerald Family Trust	19.5%
Patrick John Tallon	19.5%
Michael Lorrain Vaz	3.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	8	0	(4)
Relative to index (%)	7	(0)	(9)

Source: FactSet

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## Value Proposition

- Civmec is an integrated, multi-disciplinary construction and engineering services provider to the O&G, metals and minerals, infrastructure and marine and defence sectors in Australia.
- Notable clients of Civmec include Chevron, Rio Tinto, Alcoa Australia, BHP, Thyssenkrupp and the Royal Australian Navy.
- Strong order book of AUD1.15b (as at end-Jan 2022) helps to underpin revenue visibility for the next 12 months or so.
- Trades at undemanding valuation compared to its peers.

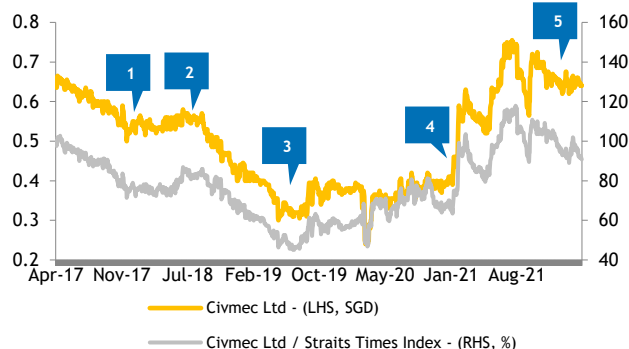
### Provides turnkey solutions for growing sectors



Source: Company

## Price Drivers

### Historical share price trend



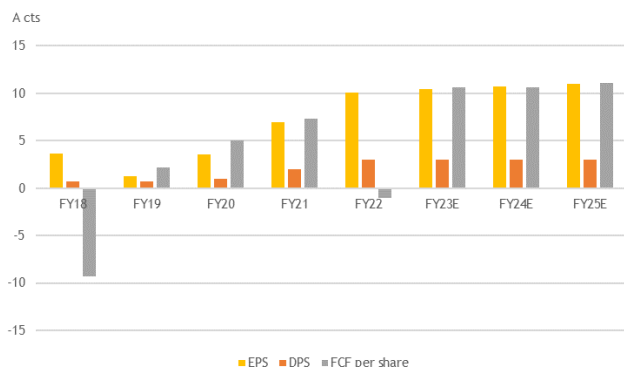
Source: Company, Maybank IBG Research

1. Selected to play a key role in the construction of 10 of Australia's new offshore patrol vessel.
2. Successfully dual-listed on the Australian Securities Exchange in Jun 2018.
3. Secured new contract for the construction of Western Australia's largest lithium plant.
4. Commence construction on 4<sup>th</sup> Royal Australian Navy offshore patrol vessel.
5. Early redemption of its AUD60m secured notes.

## Financial Metrics

- We forecast revenue CAGR of about 9% over the next 3 years driven by strong tendering activity.
- Maintenance work is recurring in nature and accounted for more than 25% of the Group's revenue in FY22.
- FY22 EBITDA margin of 11.7% (FY21: 10.9%; FY20: 9.8%) due to tight cost control and reduced interest expense.
- Expects to turn net cash in FY24E due to normalised level of capex, which could translate into higher DPS.

### EPS, DPS and FCF per share



Source: Company, Maybank IBG Research

## Swing Factors

### Upside

- Stronger-than-expected order wins from its key sectors.
- Margins improvement from continued cost control and economies of scale.
- Higher dividends payout due to better earnings and/or cashflow outlook.

### Downside

- Slower contract wins resulting in lower order book.
- Unexpected margins pressure from rising raw material and labour costs.
- Execution misstep leading to project delays or even termination of contracts.

Risk Rating & Score <sup>1</sup>	Not Rated
Score Momentum <sup>2</sup>	Na
Last Updated	Na
Controversy Score <sup>3</sup>	Na

## Business Model & Industry Issues

- Given the cyclical nature of the industry, combined with limitations on available resources due to the pandemic and restrictions, attraction and retention of skilled employees is a prime focus and potential risk for its business in the long term.
- As is typical in the construction and engineering industry, which undertakes predominantly manual work, the principal nature of recordable injuries are sprains and strains. However, about 30% of recordable injuries were from contractor employees.
- Construction waste is a significant environmental issue given the business it is in. As such, Civmec employs a range of waste-minimisation strategies, including: i) increase environmental awareness; ii) reduce not only its own waste, but also waste that occurs within the supply chain, including packaging; and iii) capture all recyclable materials and reducing the amount of waste that goes to landfill.
- Defence sector exposure could lead to social and reputational risks, although the contacts are with Australian government.

## Material E issues

- Due to the nature of the business, its energy inputs are high; therefore, having a stable, economical, and efficient energy source is essential.
- Currently, local electrical networks in WA and NSW provide 100% of the electricity at its manufacturing/production sites. But given the diverse project arrangements in often isolated places, it is difficult to accurately estimate energy usage at its projects.
- In FY21, its emissions intensity increased by 51% when compared to FY20 levels. This is associated with an increase in operational activities from its Henderson Assembly Hall, along with the significant increase in hours worked.
- The Henderson manufacturing facility is presently transitioning the fleet of fossil-fuelled forklifts to electric-powered forklifts where there is an alternative available.

## Material S issues

- Continuous focus on staff development with 150 people seeking professional qualifications via apprenticeship, traineeship and undergraduate programmes.
- As at end-Dec 2021, the proportion of females in the Group's head office totalled 48.1% (with 12.8% in management roles) and 7.1% across its entire workforce.
- In FY21, the group had a reduction in its Lost Time Injury Frequency Rate to 0.21 per million hours worked, decreasing from 0.36 in FY20 due to its continued efforts to drive strong field leadership and proactive leading indicators, including hazard reporting, workplace inspections and behavioural observations.
- There was a slight increase in its All Injury Frequency Rate, which records all injuries requiring at least first aid treatment, to 31.96 per million hours worked. It has since implemented manual handling and ergonomics programme on its operational site.

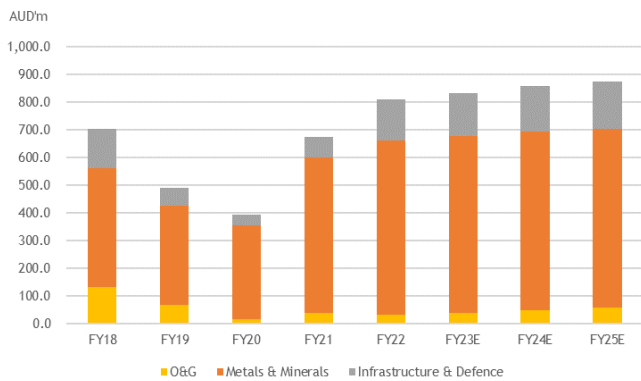
## Key G metrics and issues

- The board has six directors, including the Executive Chairman and CEO, one Executive Director and four independent Non-Executive Directors.
- The nominating, audit and remuneration committees are chaired by independent directors.
- The board is currently made up of 100% males between the ages of 50-69. Hence, there is room to further improve the diversity and composition of its Board, with the future appointment of a female member.
- But there is regular participation at Board meetings of other senior managers from across the business, including a number of women. At the Key Management Personnel/General Managers/Group Managers level, women hold 9% of positions.
- Executive Chairman, James Finbarr Fitzgerald and CEO Patrick John Tallon own about 19.51% and 19.47% stakes in the company respectively.
- Key management/ directors' compensation accounted for about 12%/15% of total employee compensation in 2021.
- The external auditor is Moore Stephens LLP.
- Till date, Civmec has never received or been the subject of any legal action in relation to anti-competitive behaviour and violations of anti-trust and monopoly legislation.
- All new major suppliers are required to comply with the Supplier Code of Conduct, committing to respect Civmec's zero-tolerance policy concerning bribery and corruption.
- In FY21, zero incidents of discrimination were reported through the confidential whistleblowing line.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

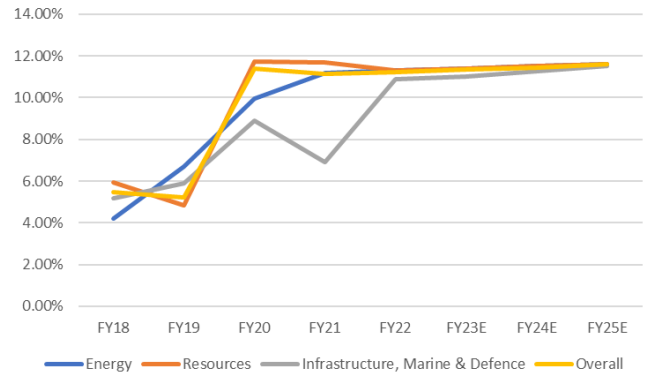
# Focus charts

**Fig 1: Revenue by key sectors**



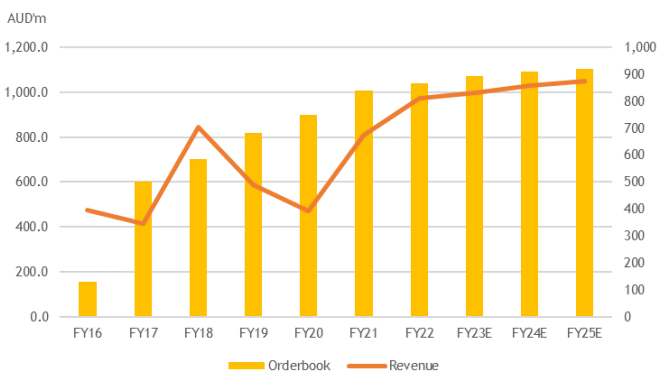
Source: Company data, Maybank IBG Research

**Fig 2: Gross margin trend**



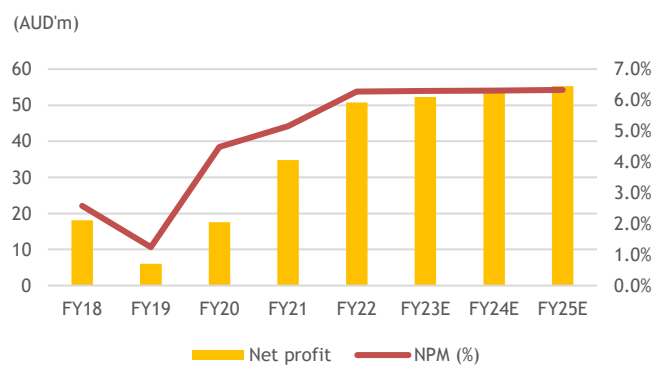
Source: Company data, Maybank IBG Research

**Fig 3: Order book and revenue forecasts**



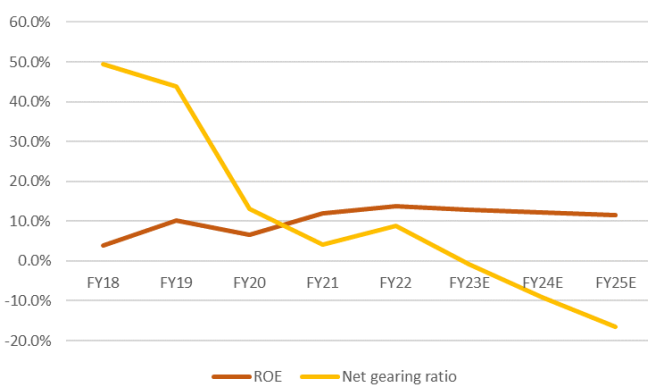
Source: Company data, Maybank IBG Research

**Fig 4: Net profit and NPM**



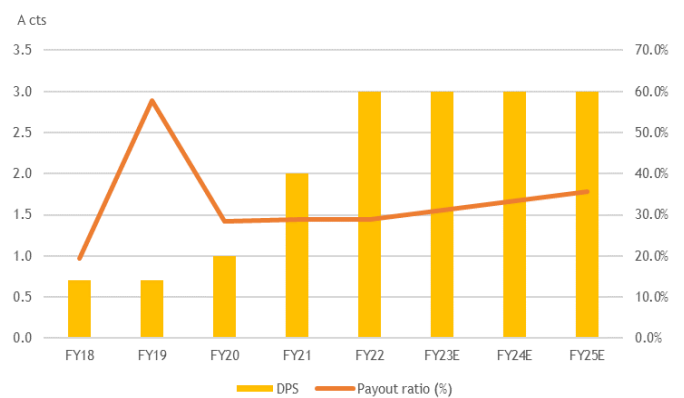
Source: Company data, Maybank IBG Research

**Fig 5: Net ROE and net gearing ratio**



Source: Company data, Maybank IBG Research

**Fig 6: DPS and payout ratio**



Source: Company data, Maybank IBG Research

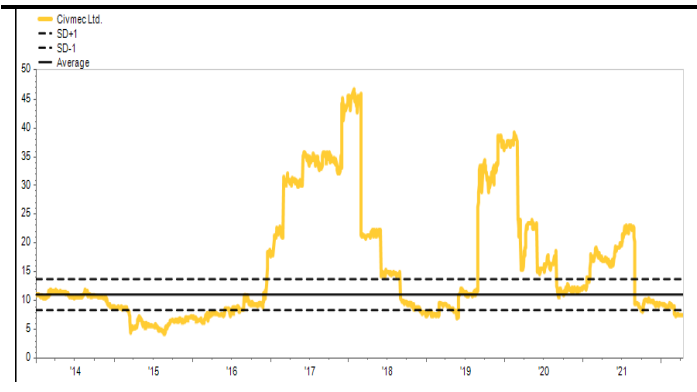
# 1. Valuation

Fig 7: Peers comparison

Company	BBG Code	MBIBG Rec	MBIBG TP (LC)	Price (LC)	FYE mm/dd	Market Cap USDm	P/E (x)				EV/EBITDA (x) Actual	P/B (x) Actual	ROE (%) Actual
							Actual	FY1	FY2	FY3			
Civmec Limited	CVL SP	BUY	1.00	0.65	06/30	232	6.6	6.5	5.9	-	5.0	3.3	15.4%
<b>Australian peers</b>													
Perenti Global	PRN AU	NR	-	0.78	06/30	376	6.8	6.2	5.1	4.4	2.6	0.4	-4.1%
Imdex	IMD AU	NR	-	2.01	06/30	546	18.6	16.2	15.0	14.2	7.8	2.5	16.3%
Emeco Holdings	EHL AU	NR	-	1	06/30	330	7.7	6.1	5.4	5.0	2.9	0.6	11.8%
NRW	NWH AU	NR	-	2.45	06/30	767	10.9	10.1	9.7	9.2	4.3	1.3	17.0%
GR Engineering Services	GNG AU	NR	-	2.38	06/30	264	11.4	14.6	18.0	-	5.3	1.8	61.0%
Monadelphous Group	MND AU	NR	-	13.17	06/30	861	24.1	19.3	16.3	16.7	10.5	2.3	12.9%
Downer EDI	DOW AU	NR	-	5.05	06/30	2,338	16.1	13.8	12.5	11.5	7.0	1.3	5.2%
Southern Cross Electrical	SXE AU	NR	-	0.74	06/30	131	12.2	10.1	-	-	4.3	-	8.4%
SRG Global	SRG AU	NR	-	0.70	06/30	214	15.6	10.4	9.4	8.9	5.2	1.0	5.4%
<b>AVERAGE</b>							<b>13.7</b>	<b>11.9</b>	<b>11.4</b>	<b>10.0</b>	<b>5.6</b>	<b>1.4</b>	<b>0.1</b>

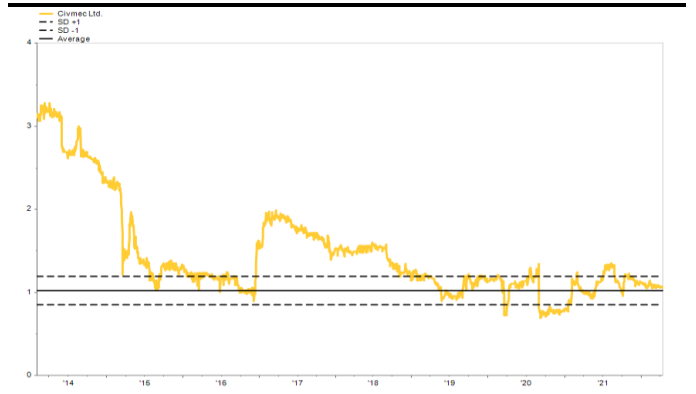
Source: FactSet, Bloomberg

Fig 8: Historical 12-month P/E band



Source: FactSet

Fig 9: Historical 12-month P/B band



Source: FactSet

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	7.1	6.7	6.5	6.3	6.1
Core P/E (x)	10.0	6.4	6.5	6.3	6.1
Core FD P/E (x)	10.0	6.4	6.5	6.3	6.1
P/BV (x)	1.1	0.8	0.8	0.8	0.7
P/NTA (x)	1.1	0.8	0.8	0.8	0.7
Net dividend yield (%)	3.1	4.8	4.4	4.4	4.4
FCF yield (%)	9.7	nm	15.8	15.8	16.4
EV/EBITDA (x)	4.9	3.9	3.7	3.2	2.7
EV/EBIT (x)	6.2	4.8	4.6	4.0	3.4
<b>INCOME STATEMENT (AUD m)</b>					
Revenue	674.2	809.3	831.2	856.1	873.3
EBITDA	70.9	91.5	93.1	97.0	100.2
Depreciation	(14.2)	(16.6)	(18.0)	(19.0)	(20.0)
Amortisation	(1.0)	0.0	0.0	0.0	0.0
EBIT	55.7	74.9	75.1	78.0	80.2
Net interest income / (exp)	(6.5)	(4.9)	(3.5)	(4.0)	(4.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	49.2	70.0	71.6	74.0	75.7
Income tax	(15.6)	(19.2)	(19.3)	(20.0)	(20.4)
Minorities	(0.1)	(0.0)	0.0	0.0	0.0
Perpetual securities	(1.0)	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	32.5	50.7	52.3	54.0	55.3
Core net profit	32.5	49.4	52.3	54.0	55.3
<b>BALANCE SHEET (AUD m)</b>					
Cash & Short Term Investments	48.2	40.8	77.8	114.4	153.5
Accounts receivable	87.5	95.0	99.7	102.7	104.8
Inventory	82.6	121.7	130.0	140.0	150.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	412.0	448.1	440.1	431.1	421.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.1	0.0	0.0	0.0	0.0
Other assets	6.5	20.0	20.0	20.0	20.0
<b>Total assets</b>	<b>636.9</b>	<b>725.7</b>	<b>767.6</b>	<b>808.2</b>	<b>849.4</b>
ST interest bearing debt	10.4	38.6	38.6	38.6	38.6
Accounts payable	87.4	111.7	117.9	121.3	123.5
Insurance contract liabilities	80.1	43.3	43.3	43.3	43.3
LT interest bearing debt	60.0	46.0	46.0	46.0	46.0
Other liabilities	107.0	115.0	115.0	115.0	115.0
<b>Total Liabilities</b>	<b>345.1</b>	<b>354.5</b>	<b>360.8</b>	<b>364.2</b>	<b>366.4</b>
Shareholders Equity	292.1	371.4	407.1	444.3	483.3
Minority Interest	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
<b>Total shareholder equity</b>	<b>291.9</b>	<b>371.1</b>	<b>406.8</b>	<b>444.0</b>	<b>483.0</b>
<b>Total liabilities and equity</b>	<b>636.9</b>	<b>725.7</b>	<b>767.6</b>	<b>808.2</b>	<b>849.4</b>
<b>CASH FLOW (AUD m)</b>					
Pretax profit	49.2	70.0	71.6	74.0	75.7
Depreciation & amortisation	15.2	16.6	18.0	19.0	20.0
Adj net interest (income)/exp	9.4	7.9	3.5	4.0	4.5
Change in working capital	(4.2)	(56.7)	(6.8)	(9.6)	(9.8)
Cash taxes paid	(6.2)	(27.8)	(19.3)	(20.0)	(20.4)
Other operating cash flow	(1.0)	0.0	0.0	0.0	0.0
Cash flow from operations	52.9	2.1	63.5	63.4	65.4
Capex	(21.6)	(6.9)	(10.0)	(10.0)	(10.0)
Free cash flow	31.3	(4.8)	53.5	53.4	55.4
Dividends paid	(10.0)	(10.0)	(15.1)	(15.1)	(15.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(7.0)	(7.5)	(1.5)	(1.7)	(1.2)
Other invest/financing cash flow	0.0	0.0	0.0	0.0	0.0
Effect of exch rate changes	(1.0)	0.0	0.0	0.0	0.0
Net cash flow	13.2	(22.4)	37.0	36.6	39.1

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	72.0	20.0	2.7	3.0	2.0
EBITDA growth	98.0	29.1	1.9	4.1	3.3
EBIT growth	138.8	34.4	0.4	3.8	2.8
Pretax growth	136.9	42.3	2.4	3.3	2.3
Reported net profit growth	140.4	56.1	3.1	3.3	2.3
Core net profit growth	140.4	52.1	5.9	3.3	2.3
<b>Profitability ratios (%)</b>					
EBITDA margin	10.5	11.3	11.2	11.3	11.5
EBIT margin	8.3	9.2	9.0	9.1	9.2
Pretax profit margin	7.3	8.6	8.6	8.6	8.7
Payout ratio	30.9	29.7	28.8	27.9	27.3
<b>DuPont analysis</b>					
Net profit margin (%)	4.8	6.3	6.3	6.3	6.3
Revenue/Assets (x)	1.1	1.1	1.1	1.1	1.0
Assets/Equity (x)	2.2	2.0	1.9	1.8	1.8
ROAE (%)	11.7	15.3	13.4	12.7	11.9
ROAA (%)	5.3	7.3	7.0	6.9	6.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	43.0	41.9	47.6	49.9	53.3
Days receivable outstanding	43.3	40.6	42.2	42.6	42.8
Days inventory outstanding	53.4	51.2	61.5	64.1	67.6
Days payables outstanding	53.6	49.9	56.1	56.8	57.1
Dividend cover (x)	3.2	3.4	3.5	3.6	3.7
Current ratio (x)	1.1	1.2	1.4	1.6	1.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	2.0	2.1	2.2	2.3
Net gearing (%) (incl perps)	7.6	11.8	1.7	net cash	net cash
Net gearing (%) (excl. perps)	7.6	11.8	1.7	net cash	net cash
Net interest cover (x)	8.6	15.4	21.5	19.5	17.8
Debt/EBITDA (x)	1.0	0.9	0.9	0.9	0.8
Capex/revenue (%)	3.2	0.9	1.2	1.2	1.1
Net debt/ (net cash)	22.2	43.7	6.8	(29.8)	(68.9)

Source: Company; Maybank IBG Research



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