

Civmec Ltd (CVL SP)

Order book boost

Secured new order valued >USD330m; retain BUY

Civmec has clinched a major contract worth >AUD330m (represents more than 1/3 of our order win assumption) for the Rio Tinto Western Range Project at Rio's Paraburdoo site in the Pilbara region of Western Australia. This lifts the group's order book above AUD1.15b, and will provide clear revenue visibility for at least the next 12 months. We retain our Buy rating and 12-month TP of SGD0.94, still pegged at an undemanding 10x FY23E P/E. Key re-rating catalysts are stronger-than-expected order wins and continued margin expansion.

Testament to long-standing relationship with Rio

The iron ore project includes both greenfield and brownfield scope with the construction of a new Run of Mine (ROM) pad, primary crushing facility, overland conveying circuit and modifications to the Coarse Ore Stockpile (COS) and downstream conveying system. The greenfield scope comprises a new primary crushing facility, discharge conveyor and transfer station and a 17 km overland conveying system that transfers the ore through to the existing Paraburdoo COS. To tie into the existing plant, the brownfield scope includes extensive modification to the current Paraburdoo COS and downstream conveying system.

Project scheduled for completion in 1H FY25

Civmec will complete a vertical package of work that will utilise most of its in-house capabilities. From the Henderson facility, the group will carry out the heavy engineering requirement for the structural and platework fabrication and where viable will assemble modules for transportation to site. On site, it will deliver the detailed earthworks, civil and concrete components, as well as the structural, mechanical, piping (SMP) and electrical and instrumentation (E&I) installation. The off-site works will start immediately, while mobilisation to site is due to commence mid-2023. At peak, the project will employ over 400 people on site and is currently targeted for completion in 1H FY25.

Tendering activity remains robust across all sectors

According to management, tendering activity across all its key sectors remains buoyant in FY23. Notably, there are a number of large contracts that the group is actively tendering for work commencing from end-FY23. Despite the uncertain macro environment, we understand that visibility of upcoming projects for existing clients is good and there are no indications from clients that future project plans are likely to change.

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	6.0	5.8	5.7
P/BV (x)	1.1	0.8	0.8	0.7	0.7
Net dividend yield (%)	3.1	4.8	4.8	4.8	4.8
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	3.5	2.9	2.5
Net gearing (%) (incl perps)	7.6	11.8	1.7	net cash	net cash
Consensus net profit	-	-	53	55	56
MKE vs. Consensus (%)	-	-	(1.0)	(0.9)	(1.1)

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BUY

Share Price	SGD 0.58
12m Price Target	SGD 0.94 (+63%)
Previous Price Target	SGD 0.94

Company Description

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

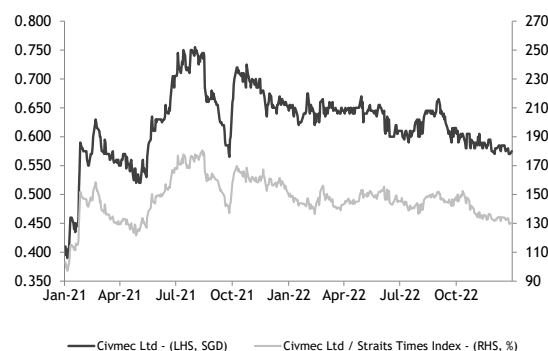
Statistics

52w high/low (SGD)	0.68/0.57
3m avg turnover (USDm)	0.0
Free float (%)	48.6
Issued shares (m)	502
Market capitalisation	SGD288.7M USD217M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(7)	(12)
Relative to index (%)	(1)	(10)	(14)

Source: FactSet

ESG@MAYBANK IBG

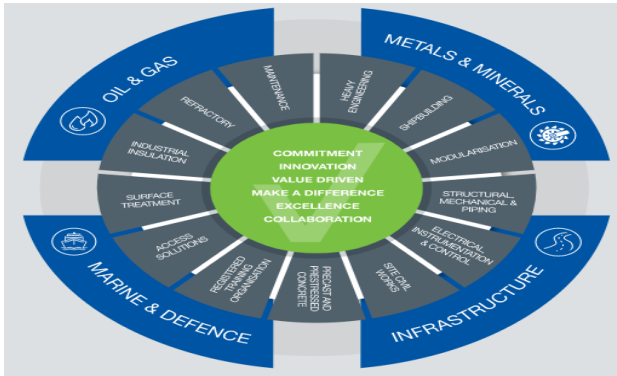
Tear Sheet Insert

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OPPORTUNITY+

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.

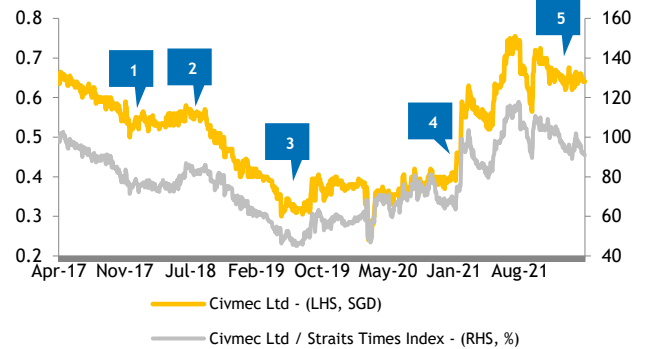
Provides turnkey solutions for growing sectors



Source: Company

Price Drivers

Historical share price trend



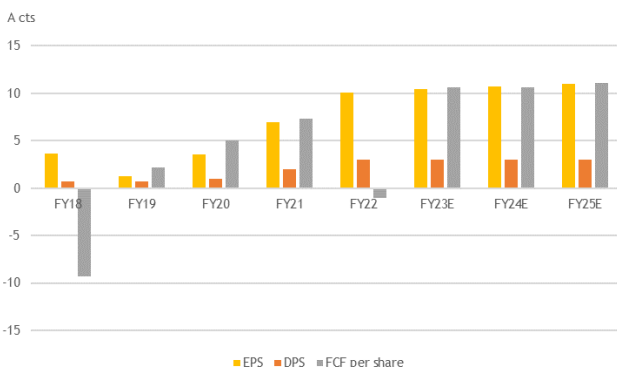
Source: Company, Maybank IBG Research

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 4th 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 margin pressure from rising raw material and labour costs.
- Execution misstep leading to project delays or even termination of contracts.

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Risk Rating & Score ¹	Not Rated
Score Momentum ²	Na
Last Updated	Na
Controversy Score ³	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.

¹**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. ²**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. ³**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).

Quantitative parameters (Score: 66)						
	Particulars	Unit	FY19	FY20	FY21	MND AU (FY21)
E	Scope 1 GHG emissions	tCO2e	1,268	689	836	N/A
	Scope 2 GHG emissions	tCO2e	3,118	3,498	5,844	N/A
	Total	tCO2e	4,386	4,187	6,680	18,355
	Scope 3 GHG emissions	tCO2e	N/A	N/A	N/A	4,619
	Total	tCO2e	4,386	4,187	6,680	22,974
	GHG intensity (Scope 1 and 2)	tCO2e/AUDm	29.4	17.6	26.6	N/A
	Total Energy Consumption	TJ	33.70	27.82	42.95	268
	Energy intensity	TJ/AUDm	0.23	0.12	0.17	N/A
	Non-Hazardous Waste - Recycled	Ton	4,746	2,637	4,732	N/A
	Non-Hazardous Waste - Landfill	Ton	603	478	535	N/A
	Hazardous Waste - Treated	Ton	1,036	585	878	N/A
	Hazardous Waste - Landfill	ton	235	255	376	N/A
	Cases of environmental non-compliance	number	0	0	0	0
	S	% of women in workforce	%	6.0%	8.3%	7.1%
% of women in management roles		%	28.0%	22.2%	12.8%	0%
Lost time injury frequency (LTIF) rate		number	0.22	0.36	0.21	0.16
Fatalities/Fines/Prosecutions		number	0	0	0	0
G	MD/CEO salary as % of reported net profit	%	12.3%	4.3%	2.2%	2.9%
	Board salary as % of reported net profit	%	26.2%	9.1%	4.6%	2.1%
	Independent directors on the Board	%	50%	50%	50%	71.4%
	Female directors on the Board	%	0%	0%	0%	28.7%

Qualitative Parameters (Score: 48)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	No.
b) is the senior management salary linked to fulfilling ESG targets?	No.
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	Yes
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	No.
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	1) Incorporating more solar panels to reduce energy intensity; 2) all new paint and blast shed has been built with a garnet recycling system to reduce the amount of waste and cost of disposing garnet.
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	Yes

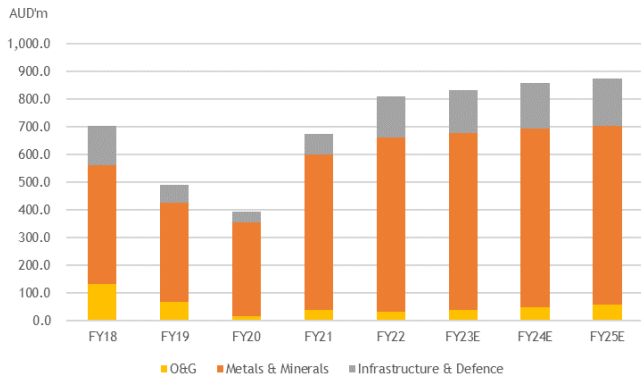
Target (Score: 64)		
Particulars	Target	Achieved
Reduce energy intensity to at least 0.17 and lower	0.17	0.17
Reduce emissions intensity to at least 17.59 and lower	17.59	26.61
Increase recycling participation rate to at least 22%	22%	18%
Increase no. of apprentices & trainees employed by 10%	10%	60.6%
Maintain LTIFR rate to below 0.25	<0.25	0.21
Maintain zero cases of workplace fatalities	0	0
Impact		
NA		
Overall score: 61		
As per our ESG matrix, Civmec Limited (CVL SP) has an overall score of 61.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	66	33
Qualitative	25%	48	12
Target	25%	64	16
Total			61

As per our ESG assessment, CVL has an established framework, internal policies, and tangible near-term targets but needs to make headway in improving its qualitative parameters. CVL's overall ESG score is 61, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

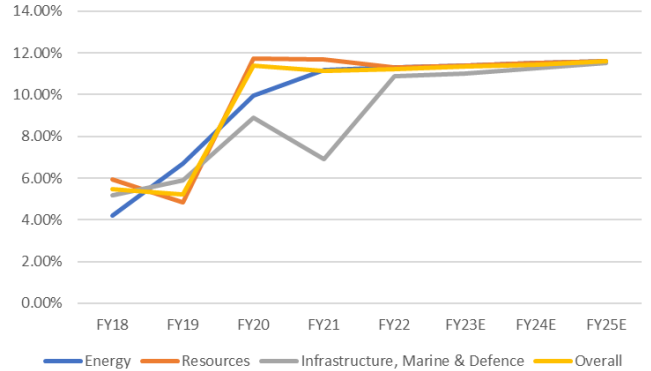
Focus charts

Fig 1: Revenue by key sectors



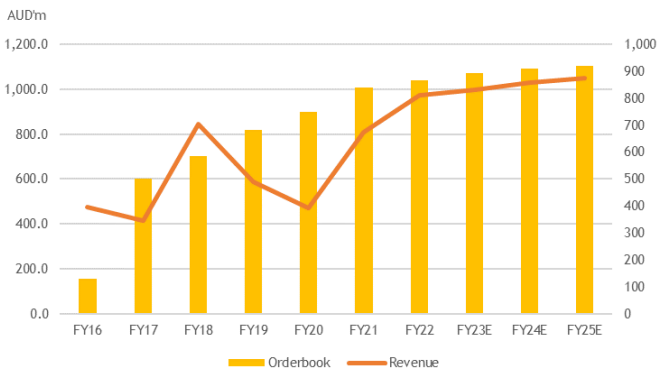
Source: Company data, Maybank IBG Research

Fig 2: Gross margin trend



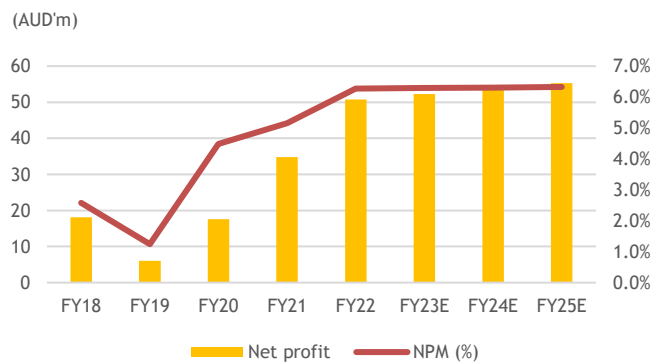
Source: Company data, Maybank IBG Research

Fig 3: Order book and revenue forecasts



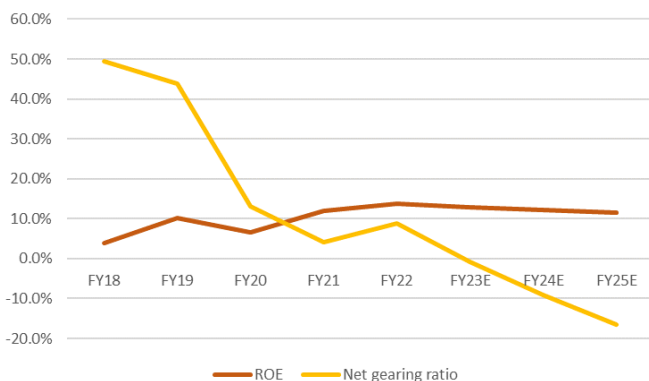
Source: Company data, Maybank IBG Research

Fig 4: Net profit and NPM



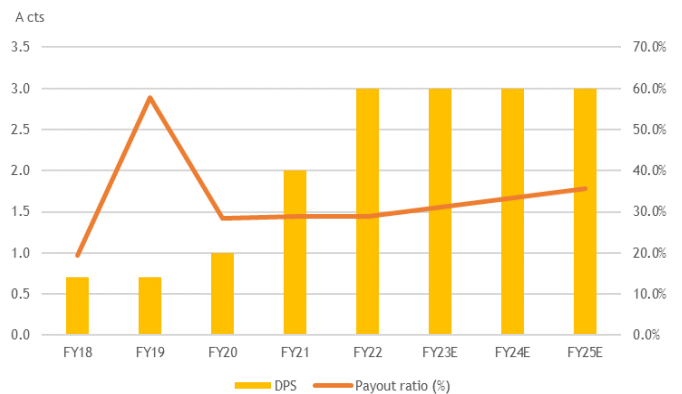
Source: Company data, Maybank IBG Research

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

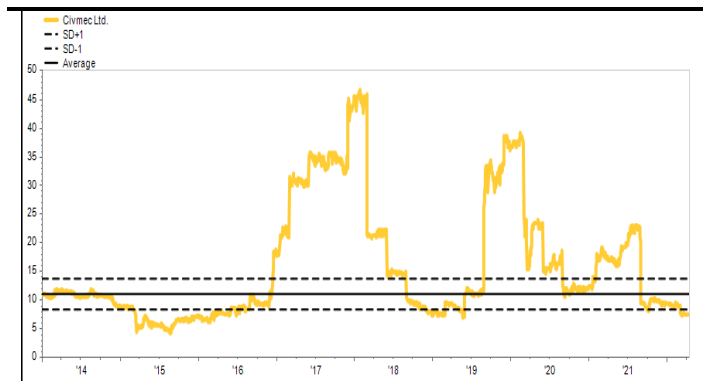
1. Relative valuation

Fig 7: Peer 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	0.94	0.58	06/30	209	6.0	5.8	5.3	5.1	4.4	3.3	15.4%
Australian peers													
Perenti Global	PRN AU	NR	-	0.96	06/30	429	8.3	7.5	6.3	5.3	2.8	0.4	-4.1%
Imdex	IMD AU	NR	-	2.05	06/30	530	19.0	16.0	15.0	14.1	7.6	2.5	16.3%
Emeco Holdings	EHL AU	NR	-	1	06/30	266	6.6	5.3	4.7	4.4	2.5	0.6	11.8%
NRW	NWH AU	NR	-	2.51	06/30	732	11.2	10.3	9.9	9.3	4.2	1.3	17.0%
GR Engineering Services	GNG AU	NR	-	2.22	06/30	233	10.6	13.6	16.8	-	4.5	1.8	61.0%
Monadelphous Group	MND AU	NR	-	13.77	06/30	855	25.2	20.2	17.0	17.4	10.4	2.3	12.9%
Downer EDI	DOW AU	NR	-	4.41	06/30	1,924	14.0	12.1	11.0	10.1	6.1	1.3	5.2%
Southern Cross Electrical	SXE AU	NR	-	0.68	06/30	115	11.3	9.0	8.6	8.5	3.4	-	8.8%
SRG Global	SRG AU	NR	-	0.70	06/30	204	15.6	10.4	9.3	8.9	4.8	1.0	-
AVERAGE							13.5	11.6	11.0	9.8	5.1	1.4	0.2

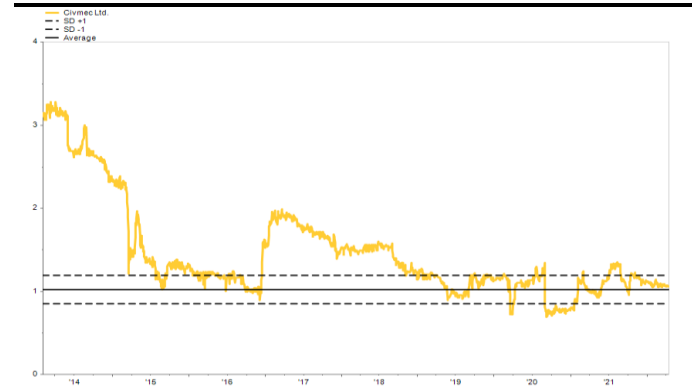
Source: FactSet, Bloomberg

Fig 8: Trailing 12-month P/E band



Source: FactSet

Fig 9: Trailing 12-month P/B band



Source: FactSet

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	7.1	6.7	6.0	5.8	5.7
Core P/E (x)	10.0	6.4	6.0	5.8	5.7
Core FD P/E (x)	10.0	6.4	6.0	5.8	5.7
P/BV (x)	1.1	0.8	0.8	0.7	0.7
P/NTA (x)	1.1	0.8	0.8	0.7	0.7
Net dividend yield (%)	3.1	4.8	4.8	4.8	4.8
FCF yield (%)	9.7	nm	17.0	16.9	17.6
EV/EBITDA (x)	4.9	3.9	3.5	2.9	2.5
EV/EBIT (x)	6.2	4.8	4.3	3.7	3.1
INCOME STATEMENT (AUD m)					
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
BALANCE SHEET (AUD m)					
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
Total assets	636.9	725.7	767.6	808.2	849.4
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
Total Liabilities	345.1	354.5	360.8	364.2	366.4
Shareholders Equity	292.1	371.4	407.1	444.3	483.3
Minority Interest	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Total shareholder equity	291.9	371.1	406.8	444.0	483.0
Total liabilities and equity	636.9	725.7	767.6	808.2	849.4
CASH FLOW (AUD m)					
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
Key Ratios					
Growth ratios (%)					
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
Profitability ratios (%)					
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
DuPont analysis					
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
Liquidity & Efficiency					
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
Leverage & Expense Analysis					
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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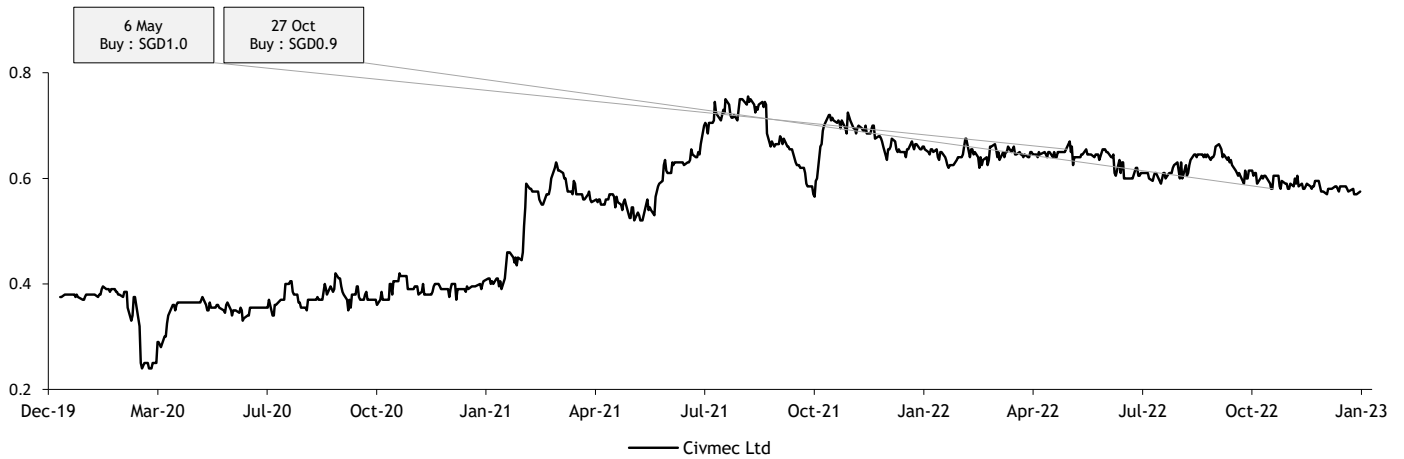
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