

Civmec Ltd (CVL SP)

Firmly on course

1Q24 net profit on track; maintain BUY and TP

1Q24 NPAT of AUD15.2m (+7.3% YoY) was in line with our and market expectations, at about 25/24% of MIBG/street's full-year forecasts. Notably, the group retains an order book of over AUD1.1b as at end-Sep 2023, while balance sheet remains solid with net cash position of AUD43.9m due to strong operating cashflows. We keep our forecasts intact and maintain BUY with TP of SGD1.05, based on 10x FY24E P/E. Civmec recently unveiled plans to redomicile to Australia, which would increase its chances of securing government and private contracts in the country.

Increasing maintenance and capital works

1Q revenue rose by 7.3% YoY to AUD245.1m as it continues to recognise key projects. Despite higher opex, net margin was stable at 6.2% due to higher workforce utilisation, and greater economies of scale. We expect margins to remain relatively firm as Civmec is raising its proportion of recurring income generated from maintenance and capital works. Civmec also generated cashflows from operations of AUD40.1m for the quarter, a conversion rate of 139% compared to EBITDA of AUD28.9m.

Buoyant tendering activity underpins orderbook

While tendering activity is robust across all sectors, management will use a more targeted approach in securing new contracts that will enable it to better control its headcount. Order book stood at over AUD1.1b as at end-Sep 2023 (+17.9% YoY), which will secure the majority of the turnover planned for the next 12 months or so. We understand that construction of its new maintenance facility in Port Hedland remains on track and the group has also submitted a development application to build a maintenance facility in Gladstone, Central Queensland, to establish a permanent base of operations in that region.

Announces plans to redomicile to Australia

Last week, Civmec has applied to redomicile to Australia from Singapore via a scheme of arrangement. The application is subject to regulatory and court approvals, as well as shareholders' approval at an EGM. Post completion by Jun 2024, the existing listing of the group on the SGX and ASX will be transferred to the NewCo. If successful, we believe this will increase Civmec's chances of clinching contracts with the Australian government and other private entities where local content is required.

FYE Jun (AUD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	809	831	896	908	919
EBITDA	91	106	112	114	117
Core net profit	49	58	61	63	64
Core FDEPS (AUD)	0.10	0.11	0.12	0.12	0.13
Core FDEPS growth(%)	52.1	16.8	5.7	2.5	2.7
Net DPS (AUD)	0.03	0.05	0.05	0.06	0.06
Core FD P/E (x)	6.4	7.2	7.2	7.0	6.8
P/BV (x)	0.8	1.0	1.0	0.9	0.8
Net dividend yield (%)	4.8	6.0	5.7	6.3	6.9
ROAE (%)	15.3	14.6	14.0	13.3	12.7
ROAA (%)	7.3	7.7	7.7	7.6	7.5
EV/EBITDA (x)	3.9	3.9	3.7	3.4	3.1
Net gearing (%) (incl perps)	11.8	net cash	net cash	net cash	net cash
Consensus net profit	-	-	62	65	69
MIBG vs. Consensus (%)	-	-	(1.7)	(4.4)	(7.6)

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BUY

Share Price	SGD 0.76
12m Price Target	SGD 1.05 (+38%)
Previous Price Target	SGD 1.05

Company Description

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

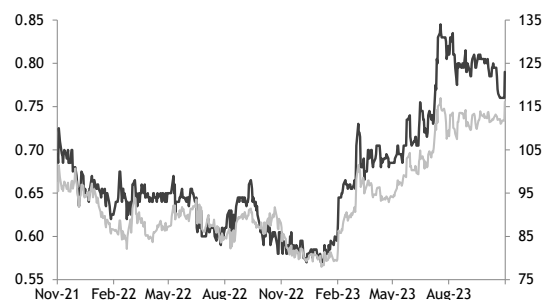
Statistics

52w high/low (SGD)	0.85/0.57
3m avg turnover (USDm)	0.1
Free float (%)	45.4
Issued shares (m)	502
Market capitalisation	SGD381.6M USD280M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(6)	26
Relative to index (%)	(1)	4	26

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 about AUD1.1b helps to underpin revenue visibility for at least the next 12 months or so.
- Trades at undemanding valuation compared to its peers.

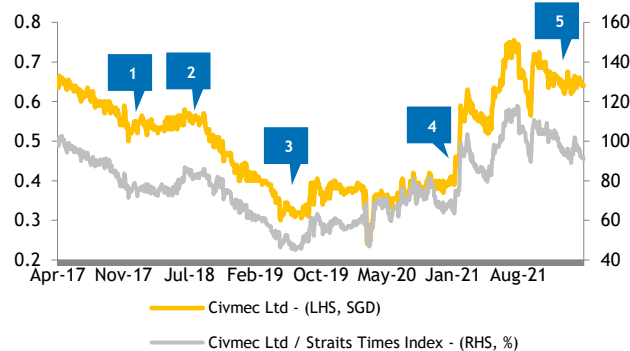
Provides turnkey solutions for growing sectors



Source: Company

Price Drivers

Historical share price trend



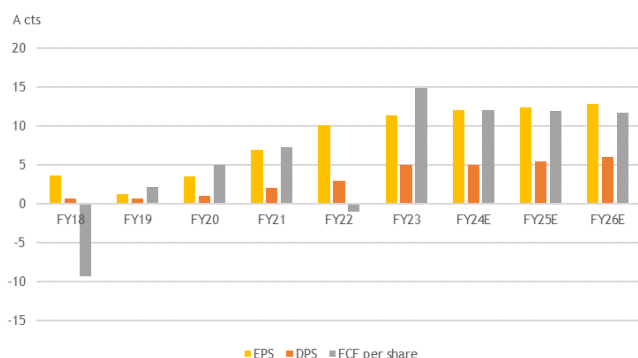
Source: Company, Maybank IBG Research

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 10% over the next 3 years, driven by its steady order book.
- Maintenance work is recurring in nature and accounted for about 25% of the Group’s FY23 revenue.
- FY23 EBITDA margin of 13.1% (FY22: 11.7%; FY21: 10.9%) due to better utilization rate and reduced interest expense.
- Balance sheet turned to a net cash position of AUD13.9m in FY23 due to strong operating cashflow.

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 operating cashflows.

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.

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, we think that continued 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 FY22, its emissions intensity was stable when compared to FY21 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 2022, the proportion of females in the Group's head office totalled 49% (with 10.5% in management roles) and 8% across its entire workforce.
- In FY22, the group's Lost Time Injury Frequency Rate was 0.74 per 1m hours worked. The manual nature of the work being undertaken has seen more musculoskeletal injuries, followed by hand injuries and eye injuries primarily across its facilities.
- There was an increase in its All Injury Frequency Rate, which records all injuries requiring at least first aid treatment, to 52.25 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 10% of positions.
- Executive Chairman, James Finbarr Fitzgerald and CEO Patrick John Tallon own about 19.35% and 19.32% stakes in the company respectively.
- Key management/ directors' compensation accounted for less than 10% of total employee compensation in 2022.
- 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 FY22, 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: 46)						
	Particulars	Unit	FY20	FY21	FY22	MND AU (FY22)
E	Scope 1 GHG emissions	tCO2e	689	836	1,036	N/A
	Scope 2 GHG emissions	tCO2e	3,498	5,844	7,424	N/A
	Total	tCO2e	4,187	6,680	8,460	18,355
	Scope 3 GHG emissions	tCO2e	N/A	N/A	N/A	4,619
	Total	tCO2e	4,187	6,680	8,460	22,974
	GHG intensity (Scope 1 and 2)	tCO2e/AUDm	17.6	26.6	27.3	N/A
	Total Energy Consumption	TJ	27.82	42.95	53.68	268
	Energy intensity	TJ/AUDm	0.12	0.17	0.17	N/A
	RE as % of total energy consumption	%	N/A	N/A	N/A	
	Non-Hazardous Waste - Recycled	Ton	2,637	4,732	3,912	N/A
	Non-Hazardous Waste - Landfill	Ton	478	535	830	N/A
	Hazardous Waste - Treated	Ton	585	878	1,193	N/A
	Hazardous Waste - Landfill	ton	255	376	426	N/A
	Recycling participation rate	%	21%	18%	10%	
Cases of environmental non-compliance	number	0	0	0	0	
S	% of women in workforce	%	8.3%	7.1%	8.9%	N/A
	% of women in management roles	%	22.2%	12.8%	10.5%	0%
	Lost time injury frequency (LTIF) rate	number	0.36	0.21	0.74	0.16
	Fatalities/Fines/Prosecutions	number	0	0	0	0
G	MD/CEO salary as % of reported net profit	%	4.3%	3.6%	2.5%	2.9%
	Board salary as % of reported net profit	%	12.6%	8.6%	5.9%	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: 16)	
a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?	<i>No, the sustainability efforts are driven by the sustainability action taskforce. The company has appointed a full-time Sustainability and Environmental Advisor.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>No.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>No</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>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.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No</i>

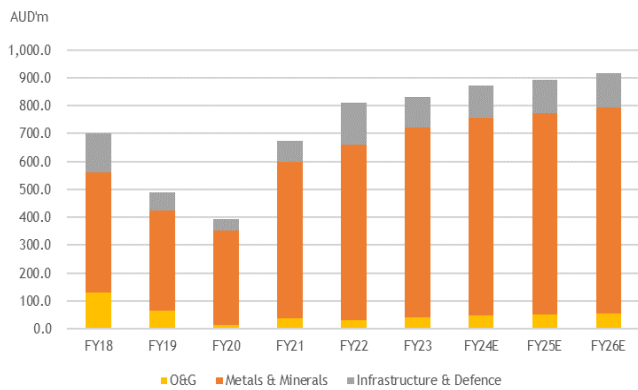
Target (Score: 100)		
Particulars	Target	Achieved
Reduce energy intensity to at least 0.17 and lower by FY22	0.17	0.17
Reduce emissions intensity to at least 17.59 and lower by FY22	17.59	26.61
Increase recycling participation rate to at least 22% by FY22	22%	18%
Increase no. of apprentices & trainees employed by 10% by FY22	10%	60.6%
Maintain LTIFR rate to below 0.25 by FY22	<0.25	0.21
Maintain zero cases of workplace fatalities	0	0
Impact		
NA		
Overall score: 52		
As per our ESG matrix, Civmec Limited (CVL SP) has an overall score of 52.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	46	23
Qualitative	25%	16	4
Target	25%	100	25
Total			52

As per our ESG assessment, CVL has a clear framework, internal policies, and tangible near-term targets but needs to make further headway in improving its qualitative parameters. CVL's overall ESG score is 52, which makes its ESG rating marginally above average in our view (average ESG rating = 50).

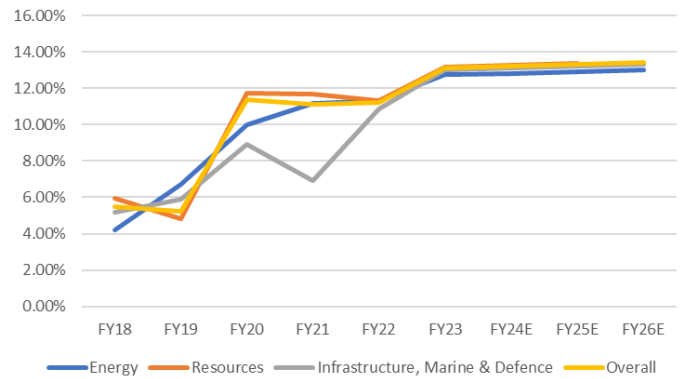
1. Focus charts

Fig 1: Revenue by key sectors



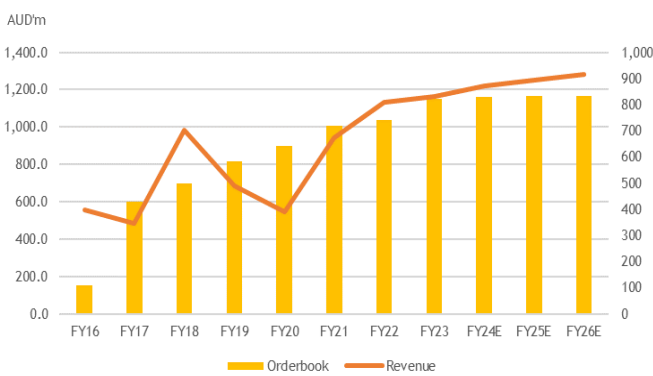
Source: Company, Maybank IBG Research

Fig 2: Gross margin trend



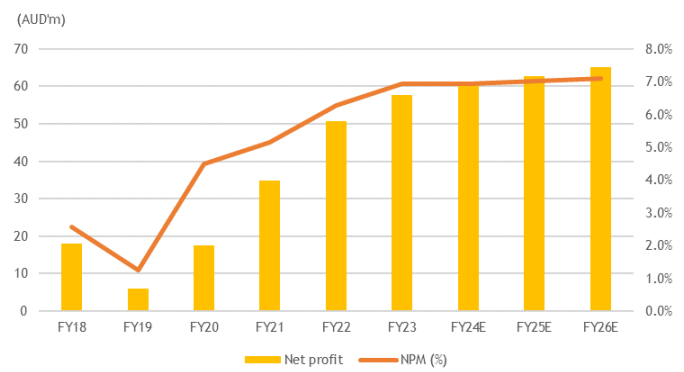
Source: Company, Maybank IBG Research

Fig 3: Order book and revenue forecasts



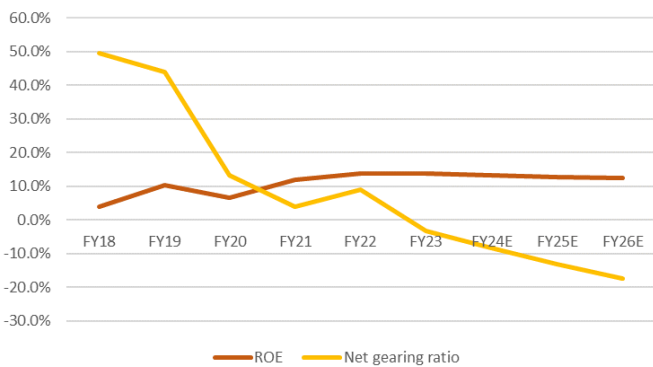
Source: Company, Maybank IBG Research

Fig 4: Net profit and net profit margin



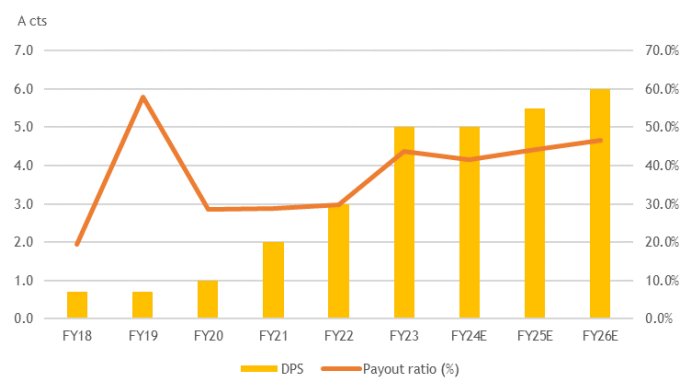
Source: Company, Maybank IBG Research

Fig 5: Net ROE and net gearing ratio



Source: Company, Maybank IBG Research

Fig 6: DPS and payout ratio



Source: Company, Maybank IBG Research

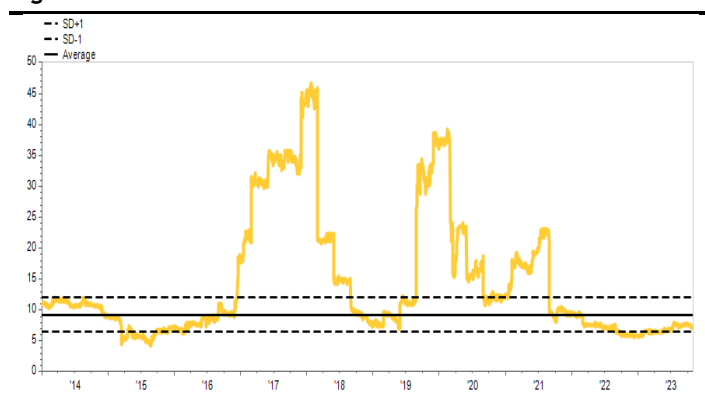
2. Valuation

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	FY23	FY24				
Civmec Limited	CVL SP	BUY	1.05	0.76	06/30	283	7.8	7.3	6.7	6.3	4.7	3.3	14.4%
Australian peers													
Perenti Global	PRN AU	NR	-	1.06	06/30	652	5.8	5.4	4.7	4.3	2.3	0.5	7.0%
Imdex	IMD AU	NR	-	1.61	06/30	520	13.4	14.6	12.6	11.8	7.1	1.7	8.2%
Emeco Holdings	EHL AU	NR	-	1	06/30	192	5.1	4.4	4.1	3.7	2.4	0.6	7.1%
NRW	NWH AU	NR	-	2.54	06/30	731	10.9	10.1	9.3	8.8	4.3	1.9	14.2%
GR Engineering Services	GNG AU	NR	-	2.15	06/30	226	12.6	13.8	13.9	-	6.2	1.8	45.1%
Monadelphous Group	MND AU	NR	-	13.80	06/30	852	24.7	20.9	17.7	16.9	11.4	2.6	12.6%
Downer EDI	DOW AU	NR	-	3.69	06/30	1,579	15.2	13.1	10.0	9.0	6.1	1.3	-15.1%
Southern Cross Electrical	SXE AU	NR	-	0.83	06/30	138	10.8	9.9	9.0	-	3.8	-	11.3%
SRG Global	SRG AU	NR	-	0.63	06/30	208	9.3	8.4	7.5	7.6	4.3	1.0	8.6%
AVERAGE							12.0	11.2	9.9	8.9	5.3	1.4	10.5

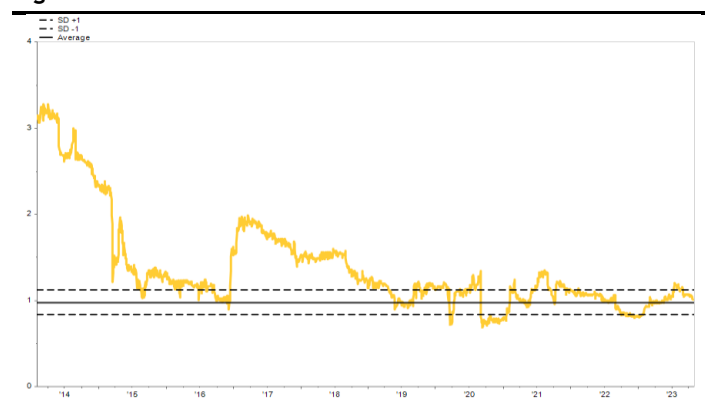
Source: FactSet, Bloomberg

Fig 8: 12-month P/E band



Source: FactSet

Fig 9: 12-month P/B band



Source: FactSet

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	6.7	6.1	7.2	7.0	6.8
Core P/E (x)	6.4	7.2	7.2	7.0	6.8
Core FD P/E (x)	6.4	7.2	7.2	7.0	6.8
P/BV (x)	0.8	1.0	1.0	0.9	0.8
P/NTA (x)	0.8	1.0	1.0	0.9	0.8
Net dividend yield (%)	4.8	6.0	5.7	6.3	6.9
FCF yield (%)	nm	17.3	13.9	13.7	13.3
EV/EBITDA (x)	3.9	3.9	3.7	3.4	3.1
EV/EBIT (x)	4.8	4.7	4.4	4.1	3.7
INCOME STATEMENT (AUD m)					
Revenue	809.3	830.9	896.2	907.7	919.2
EBITDA	91.5	105.8	111.6	114.3	117.2
Depreciation	(16.6)	(18.4)	(19.0)	(20.0)	(21.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	74.9	87.3	92.6	94.3	96.2
Net interest income / (exp)	(4.9)	(4.8)	(4.9)	(4.7)	(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	70.0	82.6	87.7	89.6	91.7
Income tax	(19.2)	(24.9)	(26.7)	(27.1)	(27.5)
Minorities	(0.0)	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	50.7	57.7	61.0	62.5	64.2
Core net profit	49.4	57.7	61.0	62.5	64.2
BALANCE SHEET (AUD m)					
Cash & Short Term Investments	40.8	70.4	86.5	107.8	129.1
Accounts receivable	95.0	108.2	116.5	118.0	119.5
Inventory	121.7	100.1	110.0	120.0	130.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	448.1	476.3	477.3	477.3	476.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	20.0	19.5	20.3	21.3	22.3
Total assets	725.7	774.5	810.6	844.4	877.2
ST interest bearing debt	38.6	18.2	18.2	18.2	18.2
Accounts payable	111.7	117.7	128.4	130.0	131.6
Insurance contract liabilities	43.3	44.7	44.7	44.7	44.7
LT interest bearing debt	46.0	48.5	40.0	35.0	30.0
Other liabilities	115.0	125.0	126.0	128.0	129.0
Total Liabilities	354.5	353.9	357.6	355.7	353.7
Shareholders Equity	371.4	420.9	453.3	489.0	523.7
Minority Interest	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Total shareholder equity	371.1	420.6	453.0	488.7	523.5
Total liabilities and equity	725.7	774.5	810.6	844.4	877.2
CASH FLOW (AUD m)					
Pretax profit	70.0	82.6	87.7	89.6	91.7
Depreciation & amortisation	16.6	18.4	19.0	20.0	21.0
Adj net interest (income)/exp	7.9	8.1	4.9	4.7	4.5
Change in working capital	(56.7)	14.8	1.1	(2.4)	(6.7)
Cash taxes paid	(27.8)	(24.2)	(26.7)	(27.1)	(27.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	2.1	91.6	81.1	80.1	78.5
Capex	(6.9)	(19.9)	(20.0)	(20.0)	(20.0)
Free cash flow	(4.8)	71.7	61.1	60.1	58.5
Dividends paid	(10.0)	(20.2)	(25.3)	(27.8)	(30.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(7.5)	(8.6)	(11.2)	(6.0)	(1.9)
Other invest/financing cash flow	0.0	0.0	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(22.4)	42.9	24.6	26.3	26.3

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	20.0	2.7	7.9	1.3	1.3
EBITDA growth	29.1	15.6	5.5	2.5	2.5
EBIT growth	34.4	16.7	6.0	1.9	2.0
Pretax growth	42.3	18.0	6.2	2.2	2.3
Reported net profit growth	56.1	13.7	5.7	2.5	2.7
Core net profit growth	52.1	16.8	5.7	2.5	2.7
Profitability ratios (%)					
EBITDA margin	11.3	12.7	12.4	12.6	12.8
EBIT margin	9.2	10.5	10.3	10.4	10.5
Pretax profit margin	8.6	9.9	9.8	9.9	10.0
Payout ratio	29.7	43.5	41.2	44.2	46.9
DuPont analysis					
Net profit margin (%)	6.3	6.9	6.8	6.9	7.0
Revenue/Assets (x)	1.1	1.1	1.1	1.1	1.0
Assets/Equity (x)	2.0	1.8	1.8	1.7	1.7
ROAE (%)	15.3	14.6	14.0	13.3	12.7
ROAA (%)	7.3	7.7	7.7	7.6	7.5
Liquidity & Efficiency					
Cash conversion cycle	41.9	42.1	36.8	40.0	43.9
Days receivable outstanding	40.6	44.0	45.1	46.5	46.5
Days inventory outstanding	51.2	55.3	48.6	52.5	56.4
Days payables outstanding	49.9	57.2	56.9	59.0	59.0
Dividend cover (x)	3.4	2.3	2.4	2.3	2.1
Current ratio (x)	1.2	1.4	1.5	1.7	1.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.2	2.3	2.4	2.5
Net gearing (%) (incl perps)	11.8	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	11.8	net cash	net cash	net cash	net cash
Net interest cover (x)	15.4	18.3	18.9	20.1	21.4
Debt/EBITDA (x)	0.9	0.6	0.5	0.5	0.4
Capex/revenue (%)	0.9	2.4	2.2	2.2	2.2
Net debt/ (net cash)	43.7	(3.7)	(28.3)	(54.6)	(80.9)

Source: Company; Maybank IBG Research

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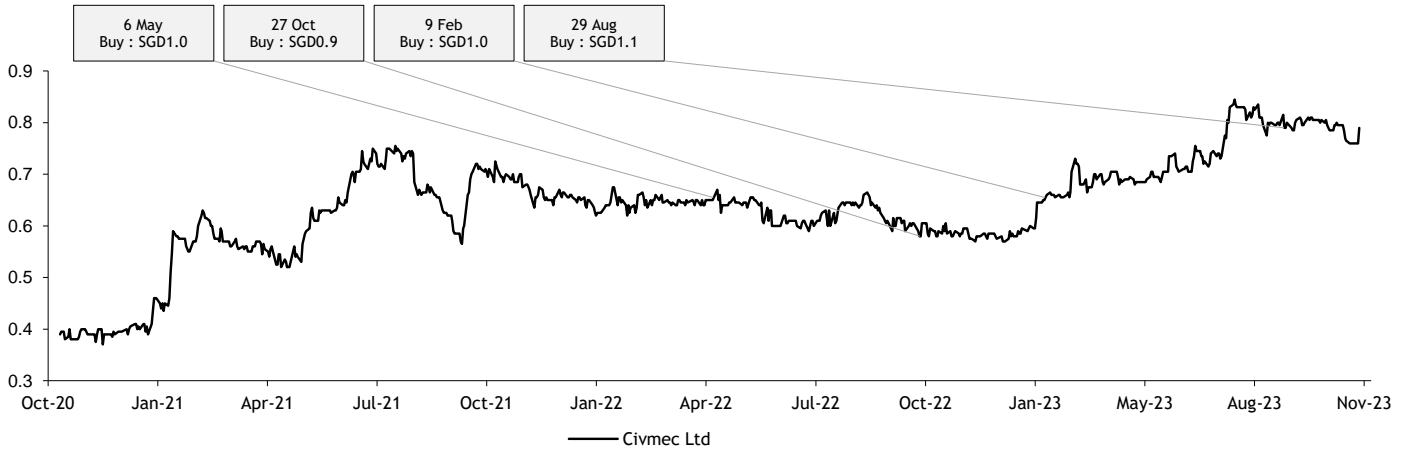
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