

Civmec Ltd (CVL SP)

Order book boost

Secures AUD174m of contracts; Retain BUY

Civmec recently secured AUD174m worth of new contracts and scope extensions for fabrication, manufacturing, construction and maintenance work across a range of sectors in Australia. This is positive and should help to replenish its AUD821m order book (as at end-Mar 2024). We maintain our EPS forecasts and TP of SGD1.05, still based on a target 10x FY25E P/E. At current levels, we think dividend yield of 6.5% is still attractive. Maintain BUY.

Clinches another job for a new shiploader

Civmec was awarded a major contract for the supply, manufacture and offsite assembly of a shiploader for the Dalrymple Bay Terminal in Queensland, Australia. To ensure operational efficiency and reliability, the manufacturing works will be undertaken at Civmec's state-of-the-art facility in Henderson, Western Australia (WA). The shiploader will then be fully assembled and no-load commissioned offsite and transported via heavy lift vessel to the project site.

Maintenance a new growth catalyst

Construction of its Port Hedland facility in the Pilbara region of WA has been completed. Civmec can now also focus on providing maintenance services (currently c.20% of its total revenue) as the next growth driver. It recently renewed a number of contracts and work orders under existing terms and framework agreements across Australia. We understand plans for a new east coast maintenance hub in Gladstone are progressing well. This new hub would also create a new line of opportunity for its east coast based maintenance team.

Robust tendering to replenish order book

According to management, tenders by the group remain at historically high levels, with total contract values of almost AUD10b. Civmec is working closely with a range of clients on approved expansions, sustaining and maintenance opportunities as well as on a budgetary level for projects under feasibility studies. In our view, this provides significant opportunities for both order-book replenishment and potential earnings/margin improvement in the medium to long term.

FYE Jun (AUD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	809	831	1,000	916	950
EBITDA	91	106	117	111	116
Core net profit	49	58	64	60	63
Core FDEPS (AUD)	0.10	0.11	0.13	0.12	0.13
Core FDEPS growth(%)	52.1	16.8	11.7	(7.1)	5.5
Net DPS (AUD)	0.03	0.05	0.06	0.07	0.07
Core FD P/E (x)	6.4	7.2	7.2	7.7	7.3
P/BV (x)	0.8	1.0	1.0	0.9	0.9
Net dividend yield (%)	4.8	6.0	6.5	7.1	7.6
ROAE (%)	15.3	14.6	14.7	12.7	12.6
ROAA (%)	7.3	7.7	8.0	7.1	7.2
EV/EBITDA (x)	3.9	3.9	3.6	3.6	3.3
Net gearing (%) (incl perps)	11.8	net cash	net cash	net cash	net cash
Consensus net profit	-	-	63	63	68
MIBG vs. Consensus (%)	-	-	2.0	(5.5)	(7.2)

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BUY

Share Price	SGD 0.83
12m Price Target	SGD 1.05 (+26%)
Previous Price Target	SGD 1.05

Company Description

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

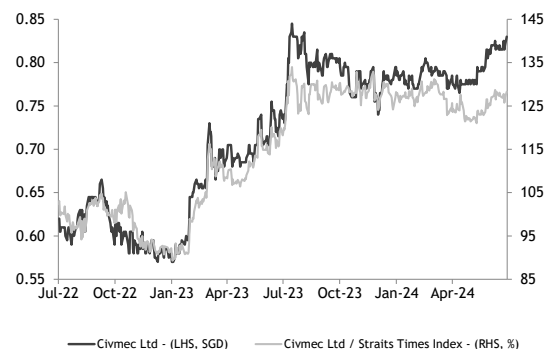
Statistics

52w high/low (SGD)	0.85/0.73
3m avg turnover (USDm)	0.1
Free float (%)	45.4
Issued shares (m)	502
Market capitalisation	SGD416.7M USD307M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	6	11
Relative to index (%)	3	3	7

Source: FactSet

ESG@MAYBANK IBG

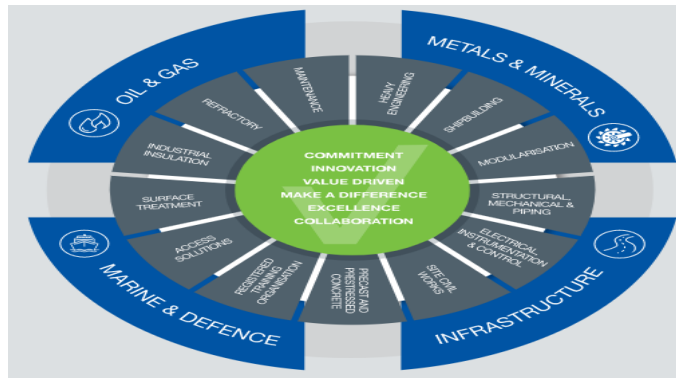
Tear Sheet Insert

MAYBANK IBG
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 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.

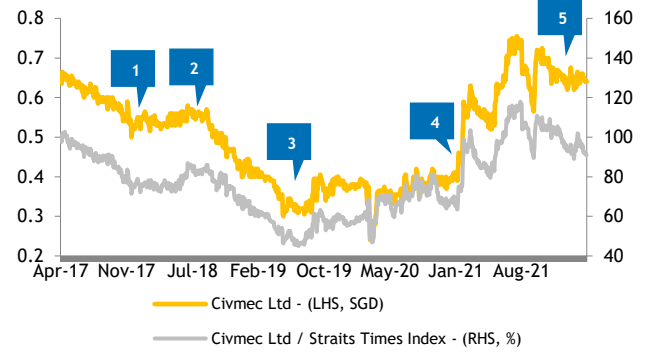
Provides turnkey solutions for growing sectors



Source: Company

Price Drivers

Historical share price trend



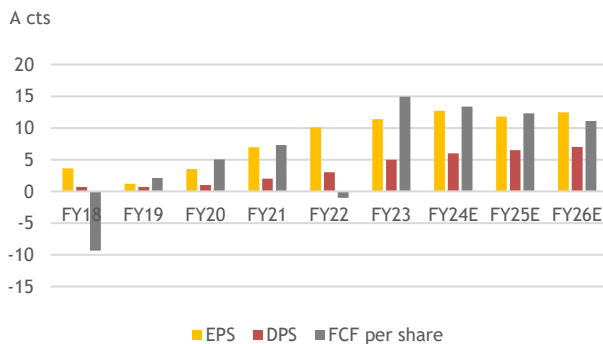
Source: Company, Maybank IBG Research

1. Selected to play a key role in the construction of 10 of Australia's new offshore patrol vessels.
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 over 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.
- Margin improvement from continued cost control and economies of scale.
- Higher dividend payouts 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.

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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, 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 FY23, its emissions intensity was stable when compared to FY22 levels despite 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 2023, the proportion of females in the Group's head office totalled almost 50% (with 11% in management roles) and >9% across its entire workforce.
- In FY23, the group's Lost Time Injury Frequency Rate fell to 0.4 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 a slight decrease in its All Injury Frequency Rate, which records all injuries requiring at least first aid treatment, to 50.24 per million hours worked. It has since implemented manual handling and ergonomics programme on its operational site.

- 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 19.3% and 19.2% stakes in the company respectively.
- Key management/ directors' compensation accounted for less than 10% of total employee compensation in 2023.
- The external auditor is Moore Stephens LLP.
- To date, Civmec has never received or been the subject of any legal action in relation to anti-competitive behaviour nor 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 FY23, 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: 38)						
	Particulars	Unit	FY21	FY22	FY23	MND AU (FY23)
E	Scope 1 GHG emissions	tCO2e	836	1,747	1,662	N/A
	Scope 2 GHG emissions	tCO2e	5,844	7,424	5,523	N/A
	Total	tCO2e	6,680	9,171	7,185	16,440
	Scope 3 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	Total	tCO2e	6,680	9,171	7,185	N/A
	GHG intensity (Scope 1 and 2)	tCO2e/AUDm	26.6	11.3	8.9	N/A
	Total Energy Consumption	TJ	43	64	58	240
	Energy intensity	TJ/AUDm	0.1	0.08	0.07	N/A
	RE as % of total energy consumption	%	N/A	N/A	N/A	N/A
	Total Water Consumption	kL	N/A	N/A	15,831	N/A
	Materials Recovery Rate - Manufacturing	%	N/A	N/A	87%	N/A
	Materials Recovery Rate - Refractory	%	N/A	N/A	63%	N/A
	Materials Recovery Rate - Asset Yards	%	N/A	N/A	15%	N/A
	Recycling participation rate	%	N/A	N/A	76%	N/A
	Cases of environmental non-compliance	number	0	0	0	0
S	% of women in workforce	%	7.1%	8.9%	9.4%	N/A
	% of women in management roles	%	12.8%	10.5%	11.1%	0%
	Lost time injury frequency (LTIF) rate	number	0.21	0.74	0.4	0.13
	Fatalities/Fines/Prosecutions	number	0	0	0	0
G	MD/CEO salary as % of reported net profit	%	3.6%	2.5%	2.3%	3.2%
	Board salary as % of reported net profit	%	8.6%	5.9%	5.2%	4.1%
	Independent directors on the Board	%	50%	50%	50%	66.7%
	Female directors on the Board	%	0%	0%	0%	33.3%

Qualitative Parameters (Score: 32)	
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>Yes</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>

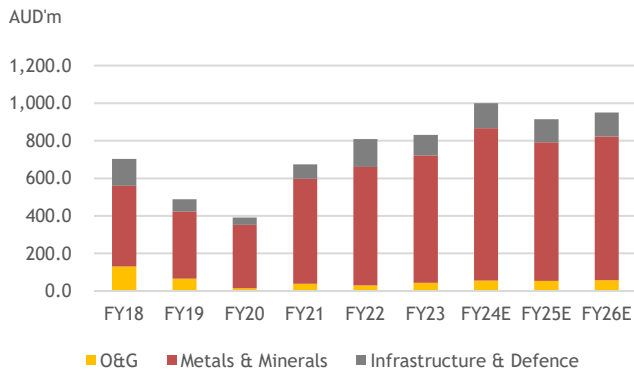
Target (Score: 100)		
Particulars	Target	Achieved
Reduce energy intensity to at least 0.17 and lower by FY23	0.17	0.16
Reduce emissions intensity to at least 25.0 and lower by FY23	25.0	21.9
Increase recycling participation rate to at least 70% by FY23	70%	76%
Maintain zero cases of environmental incidents	0	0
Maintain zero cases of prosecutions & infringement notices	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%	38	19
Qualitative	25%	32	8
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).

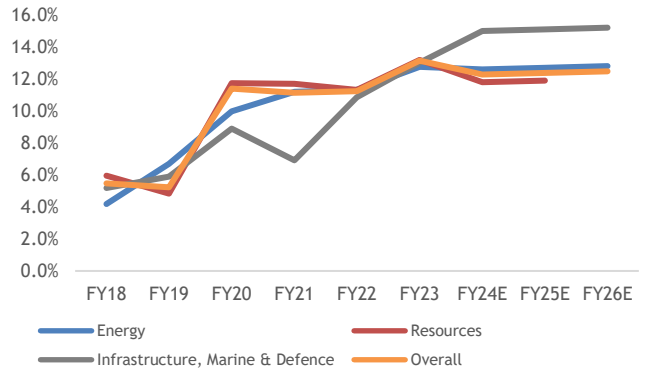
1. Focus charts

Fig 1: Revenue by key sectors



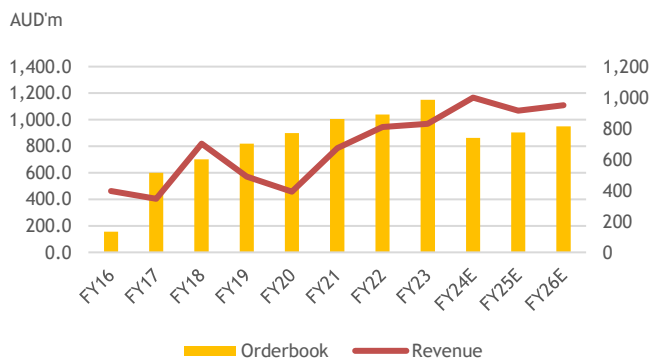
Source: Company, Maybank IBG Research

Fig 2: Gross margin trend



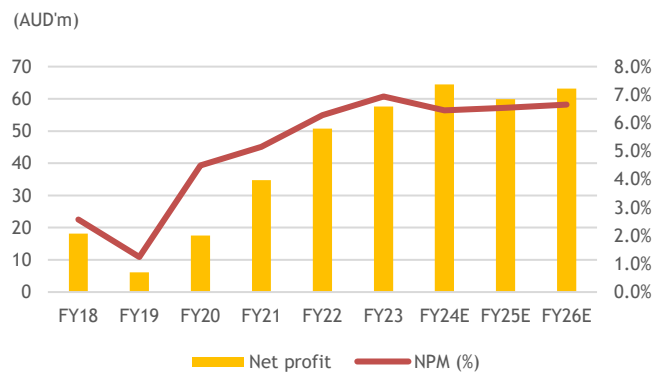
Source: Company, Maybank IBG Research

Fig 3: Order book and revenue forecasts



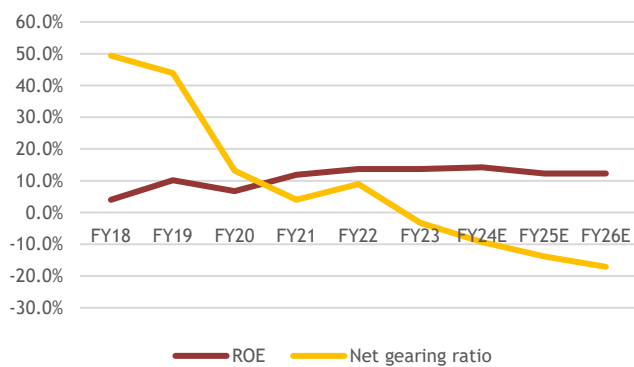
Source: Company, Maybank IBG Research

Fig 4: Net profit and net profit margin



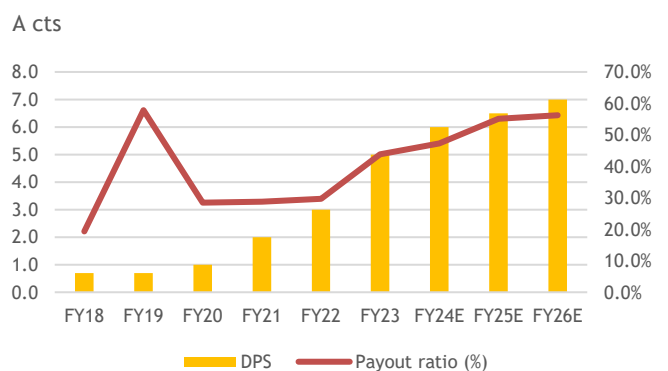
Source: Company, Maybank IBG Research

Fig 5: Net ROE and net gearing ratio



Source: Company, Maybank IBG Research

Fig 6: DPS and payout ratio



Source: Company, Maybank IBG Research

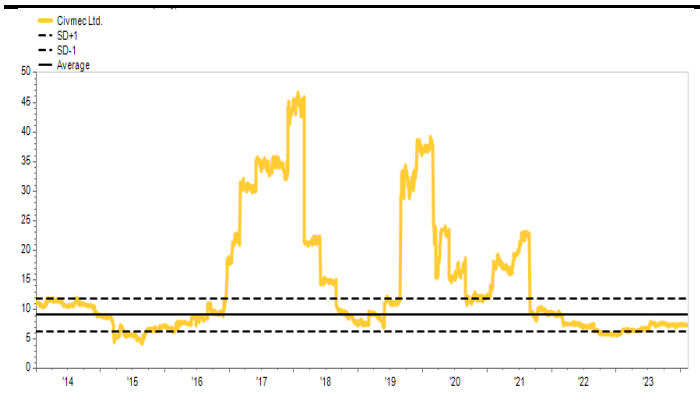
2. Valuation

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	0.82	06/30	290	8.0	7.3	6.9	6.4	4.1	3.3	14.4%
Australian peers													
Perenti Global	PRN AU	NR	-	0.95	06/30	593	5.1	5.1	4.8	4.5	2.7	0.5	7.0%
Imdex	IMD AU	NR	-	1.90	06/30	634	15.8	18.0	16.6	14.5	9.3	1.7	8.2%
Emeco Holdings	EHL AU	NR	-	1	06/30	256	6.6	5.9	5.3	5.2	2.8	0.6	7.1%
NRW	NWH AU	NR	-	2.83	06/30	843	12.2	11.3	10.3	9.8	5.2	1.9	14.2%
GR Engineering Services	GNG AU	NR	-	2.25	06/30	247	13.2	11.8	12.2	9.7	7.5	1.8	45.1%
Monadelphous Group	MND AU	NR	-	13.62	06/30	873	24.4	21.7	18.6	17.3	11.1	2.6	12.6%
Downer EDI	DOW AU	NR	-	4.64	06/30	2,049	19.1	16.4	12.0	10.5	7.5	1.3	-15.1%
Southern Cross Electrical	SXE AU	NR	-	1.42	06/30	246	18.7	16.7	12.9	11.8	8.5	-	11.3%
SRG Global	SRG AU	NR	-	0.84	06/30	288	12.5	11.4	10.2	10.1	6.0	1.0	8.6%
AVERAGE							14.2	13.1	11.4	10.4	6.7	1.4	10.5

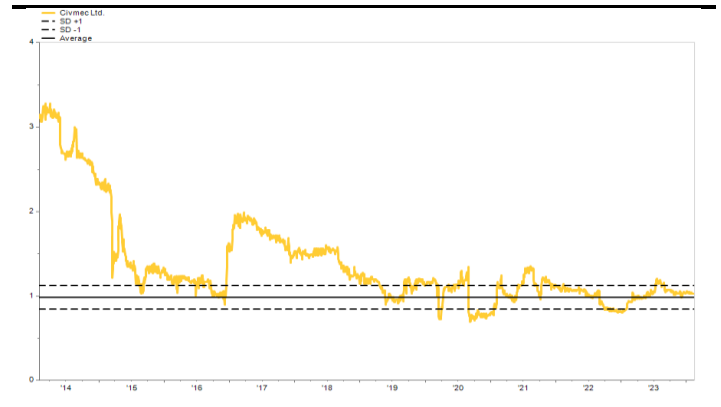
Source: FactSet, Bloomberg

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	7.7	7.3
Core P/E (x)	6.4	7.2	7.2	7.7	7.3
Core FD P/E (x)	6.4	7.2	7.2	7.7	7.3
P/BV (x)	0.8	1.0	1.0	0.9	0.9
P/NTA (x)	0.8	1.0	1.0	0.9	0.9
Net dividend yield (%)	4.8	6.0	6.5	7.1	7.6
FCF yield (%)	nm	17.3	14.7	13.5	12.2
EV/EBITDA (x)	3.9	3.9	3.6	3.6	3.3
EV/EBIT (x)	4.8	4.7	4.4	4.4	4.0

INCOME STATEMENT (AUD m)

Revenue	809.3	830.9	999.6	915.6	950.1
EBITDA	91.5	105.8	116.8	110.9	116.2
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	97.8	90.9	95.2
Net interest income / (exp)	(4.9)	(4.8)	(6.0)	(5.5)	(5.0)
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	91.8	85.4	90.2
Income tax	(19.2)	(24.9)	(27.4)	(25.5)	(27.1)
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	64.5	59.9	63.2
Core net profit	49.4	57.7	64.5	59.9	63.2

BALANCE SHEET (AUD m)

Cash & Short Term Investments	40.8	70.4	102.0	127.3	147.9
Accounts receivable	95.0	108.2	115.0	105.3	109.3
Inventory	121.7	100.1	120.0	130.0	140.0
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	20.0	21.0	22.0
Total assets	725.7	774.5	834.3	861.0	895.5
ST interest bearing debt	38.6	18.2	6.5	7.5	8.5
Accounts payable	111.7	117.7	127.2	116.3	120.6
Insurance contract liabilities	43.3	44.7	56.0	56.0	56.0
LT interest bearing debt	46.0	48.5	60.0	60.0	60.0
Other liabilities	115.0	125.0	132.0	134.0	137.0
Total Liabilities	354.5	353.9	381.3	373.9	381.7
Shareholders Equity	371.4	420.9	453.3	487.3	514.1
Minority Interest	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Total shareholder equity	371.1	420.6	453.0	487.0	513.9
Total liabilities and equity	725.7	774.5	834.3	861.0	895.5

CASH FLOW (AUD m)

Pretax profit	70.0	82.6	91.8	85.4	90.2
Depreciation & amortisation	16.6	18.4	19.0	20.0	21.0
Adj net interest (income)/exp	7.9	8.1	6.0	5.5	5.0
Change in working capital	(56.7)	14.8	4.4	2.5	(7.9)
Cash taxes paid	(27.8)	(24.2)	(27.4)	(25.5)	(27.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	2.1	91.6	87.8	82.4	76.3
Capex	(6.9)	(19.9)	(20.0)	(20.0)	(20.0)
Free cash flow	(4.8)	71.7	67.8	62.4	56.3
Dividends paid	(10.0)	(20.2)	(30.5)	(33.0)	(35.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(7.5)	(8.6)	(17.3)	(4.0)	(0.1)
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	20.1	25.3	20.6

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	20.0	2.7	20.3	(8.4)	3.8
EBITDA growth	29.1	15.6	10.5	(5.1)	4.8
EBIT growth	34.4	16.7	12.0	(7.1)	4.8
Pretax growth	42.3	18.0	11.2	(7.0)	5.6
Reported net profit growth	56.1	13.7	11.7	(7.1)	5.5
Core net profit growth	52.1	16.8	11.7	(7.1)	5.5
Profitability ratios (%)					
EBITDA margin	11.3	12.7	11.7	12.1	12.2
EBIT margin	9.2	10.5	9.8	9.9	10.0
Pretax profit margin	8.6	9.9	9.2	9.3	9.5
Payout ratio	29.7	43.5	46.7	54.5	55.6
DuPont analysis					
Net profit margin (%)	6.3	6.9	6.4	6.5	6.6
Revenue/Assets (x)	1.1	1.1	1.2	1.1	1.1
Assets/Equity (x)	2.0	1.8	1.8	1.8	1.7
ROAE (%)	15.3	14.6	14.7	12.7	12.6
ROAA (%)	7.3	7.7	8.0	7.1	7.2
Liquidity & Efficiency					
Cash conversion cycle	41.9	42.1	35.1	44.8	47.8
Days receivable outstanding	40.6	44.0	40.2	43.3	40.6
Days inventory outstanding	51.2	55.3	45.2	56.1	58.4
Days payables outstanding	49.9	57.2	50.3	54.6	51.3
Dividend cover (x)	3.4	2.3	2.1	1.8	1.8
Current ratio (x)	1.2	1.4	1.6	1.8	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.2	2.2	2.3	2.3
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	16.3	16.5	19.0
Debt/EBITDA (x)	0.9	0.6	0.6	0.6	0.6
Capex/revenue (%)	0.9	2.4	2.0	2.2	2.1
Net debt/ (net cash)	43.7	(3.7)	(35.5)	(59.8)	(79.4)

Source: Company; Maybank IBG Research

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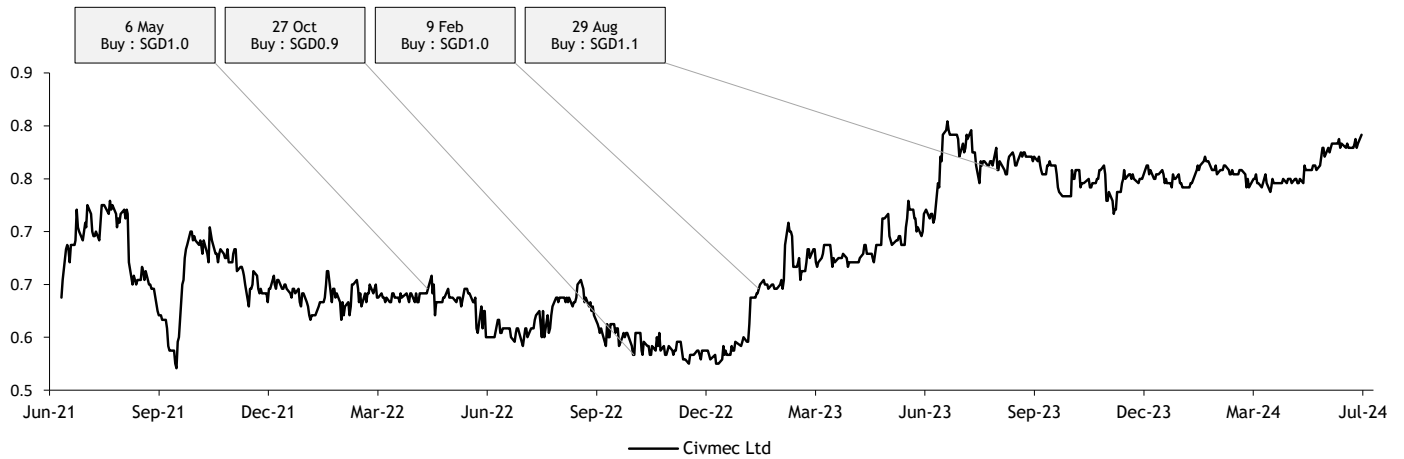
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