

Civmec Ltd (CVL SP)

Near-term challenging outlook

1H25 results below consensus; lowering EPS and TP

Civmec posted 1HFY25 net profit of AUD26.5m (-16.9% YoY), below our and market expectation at 44%/40% of MIBG/street's full-year forecast. Consequently, we cut our FY25-27E earnings forecasts by 23% to account for the lower quarterly run rate. Our TP has been reduced to SGD0.89, still based on 11.5x FY25E PER. Notwithstanding the lacklustre results, the group retained its interim DPS of 2.5 Australian cents. We thus maintain HOLD for its decent dividend yield of 5.8%.

Lower-than-expected gross margins

1HFY25 turnover rose 2.2% YoY to AUD502.9m mainly due to the timing of revenue recognition of projects. However, we note that GPM narrowed by almost 1.2ppt to 11.1% due to shift in business mix and higher depreciation expenses. More worryingly, the group's order book continued to decline by 20.9% QoQ to AUD633m as at end-Dec 2024 given delays in the timing of key project awards or re-scheduling of timing of projects. Nevertheless, management said tendering activities remain at historically high levels, with current priced opportunities nearing AUD12b.

Delays and re-scheduling of new projects

Whilst Civmec continues to maintain its strong relationship with long-term customers, it has observed a shift in market conditions amid the current geopolitical tensions. These delays / re-scheduling of new projects will result in lower levels of activity for the group in 2H25 (with the potential to extend into 1H26). Despite these short-term hiccups, management believes the pipeline of tendering remains buoyant, and forward indications look sanguine for upcoming projects across the sectors.

Actively talking to customers to secure contracts

We understand Civmec is actively collaborating with a diverse range of clients on approved expansion, sustaining, and maintenance projects, as well as providing budget estimates for projects currently under feasibility studies. Notably, the group has also made significant strides in progressing the financial closeout of major projects during the half. We think this should positively impact its cash generation and balance sheet position in 2H25.

FYE Jun (AUD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	831	1,033	939	943	956
EBITDA	106	117	94	98	103
Core net profit	58	64	46	48	51
Core FDEPS (AUD)	0.11	0.13	0.09	0.10	0.10
Core FDEPS growth(%)	16.8	11.6	(28.2)	4.4	6.0
Net DPS (AUD)	0.05	0.06	0.06	0.06	0.06
Core FD P/E (x)	7.2	7.1	11.1	10.7	10.1
P/BV (x)	1.0	0.9	1.0	1.0	0.9
Net dividend yield (%)	6.0	6.6	5.8	5.8	5.8
ROAE (%)	14.6	14.2	9.2	9.1	9.4
ROAA (%)	7.7	7.6	5.1	5.2	5.4
EV/EBITDA (x)	3.9	3.7	5.3	4.8	4.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	53	66	74
MIBG vs. Consensus (%)	-	-	(12.0)	(26.8)	(30.9)

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HOLD

Share Price SGD 0.88
12m Price Target SGD 0.89 (+2%)
Previous Price Target SGD 1.20

Company Description

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

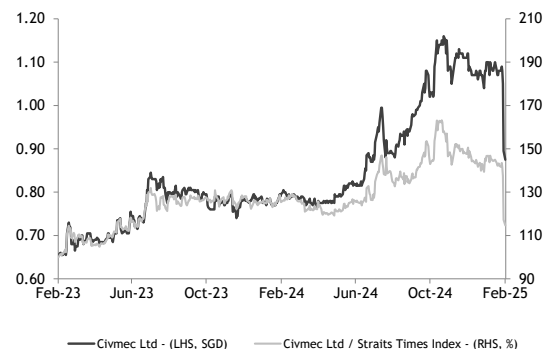
Statistics

52w high/low (SGD) 1.16/0.77
3m avg turnover (USDm) 0.1
Free float (%) 52.4
Issued shares (m) 502
Market capitalisation SGD439.3M
USD328M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(20)	(19)	10
Relative to index (%)	(22)	(22)	(9)

Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Charts

Fig 1: Earnings Revision Table

(AUD m)	FY25E			FY26E			FY27E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	938.7	972.9	-3.5%	942.5	985.7	-4.4%	956.3	1,011.4	-5.4%
EBITDA	94.0	112.2	-16.2%	97.7	116.2	-15.9%	102.7	121.3	-15.3%
Net profit	46.3	60.3	-23.2%	48.3	62.5	-22.7%	51.2	65.3	-21.6%
DPS (cts)	6.00	6.00	0.0%	6.00	6.50	-7.7%	6.00	7.00	-14.3%
			Chg (ppt)			Chg (ppt)			Chg (ppt)
EBITDA margin	10.0%	11.5%	-1.5	10.4%	11.8%	-1.4	10.7%	12.0%	-1.3
Net margin	4.9%	6.2%	-1.3	5.1%	6.3%	-1.2	5.4%	6.5%	-1.1

Source: Maybank IBG Research

Valuation

Fig 2: Peer comparison

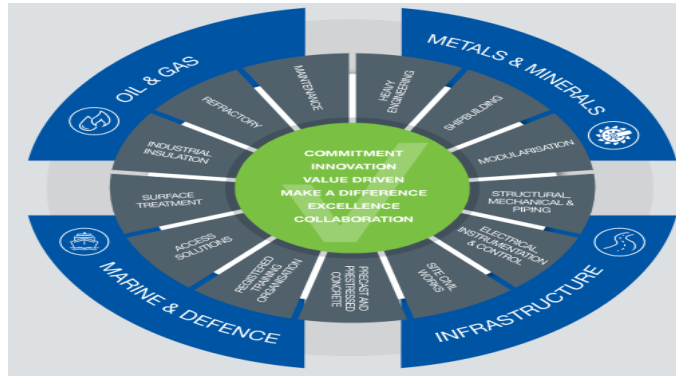
Company	BBG Code	MIBG Rec	MIBG TP (LC)	Price (LC)	FYE mm/dd	Market Cap USDm	P/E (x)				EV/EBITDA (x) Actual	P/B (x) Actual	ROE (%) Actual
							Actual	FY24	FY25	FY26			
Civmec Limited	CIVMEC SP	HOLD	0.89	1.15	06/30	453	10.2	11.4	10.9	10.3	6.5	3.3	13.9%
Australian peers													
Austal	ASB AU	NR	-	3.27	06/30	781	79.8	26.1	19.3	15.1	10.0	0.9	1.5%
Imdex	PRN AU	NR	-	2.56	06/30	863	27.8	25.0	21.3	19.7	10.9	2.0	5.7%
NRW	IMD AU	NR	-	3.81	06/30	1,147	14.0	13.0	12.1	11.7	5.5	2.2	16.6%
GR Engineering Services	NWH AU	NR	-	2.14	06/30	235	11.6	12.6	11.7	9.5	5.7	1.8	49.5%
Monadelphous Group	GNG AU	NR	-	12.48	06/30	809	19.5	17.7	16.6	15.8	8.4	2.7	13.8%
Downer EDI	MND AU	NR	-	5.68	06/30	2,512	19.3	14.7	12.7	12.6	7.2	1.5	3.2%
Southern Cross Electrical	DOW AU	NR	-	1.64	06/30	285	20.0	13.5	12.4	12.3	8.8	-	11.7%
SRG Global	SXE AU	NR	-	1.13	06/30	449	14.7	11.1	10.5	10.2	6.1	1.0	11.6%
AVERAGE							25.8	16.7	14.6	13.4	7.8	1.7	14.2%

Source: FactSet, Bloomberg

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.
- Healthy order book of about AUD853b helps to underpin revenue visibility for at least the next 12 months or so.
- Trades at undemanding valuation compared to its peers.

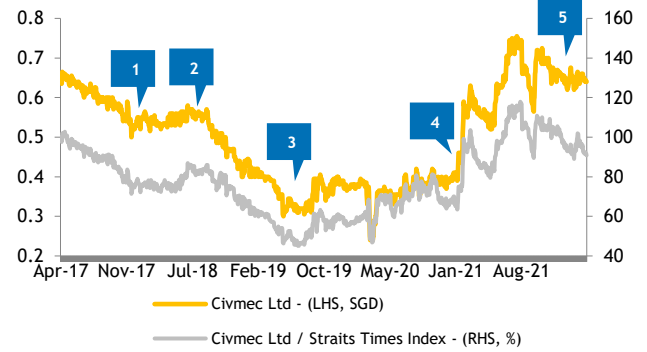
Provides turnkey solutions for growing sectors



Source: Company

Price Drivers

Historical share price trend



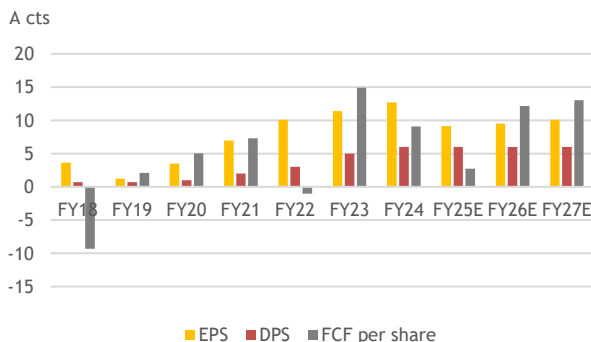
Source: Company, Maybank IBG Research

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 about 15-20% of the group's FY24 revenue.
- Room for the group's EBITDA margin (FY24: 11.7%) to improve due to better utilization rate and economics of scale.
- Balance sheet remains in a strong net cash position of AUD24.5m in FY24 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 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.
- 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 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).

FYE 30 Jun	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	6.1	7.0	11.1	10.7	10.1
Core P/E (x)	7.2	7.1	11.1	10.7	10.1
Core FD P/E (x)	7.2	7.1	11.1	10.7	10.1
P/BV (x)	1.0	0.9	1.0	1.0	0.9
P/NTA (x)	1.0	0.9	1.0	1.0	0.9
Net dividend yield (%)	6.0	6.6	5.8	5.8	5.8
FCF yield (%)	17.3	9.4	2.7	12.0	12.8
EV/EBITDA (x)	3.9	3.7	5.3	4.8	4.2
EV/EBIT (x)	4.7	4.5	6.9	6.2	5.5

INCOME STATEMENT (AUD m)

Revenue	830.9	1,033.5	938.7	942.5	956.3
EBITDA	105.8	117.2	94.0	97.7	102.7
Depreciation	(18.4)	(19.7)	(21.0)	(22.0)	(23.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	87.3	97.5	73.0	75.7	79.7
Net interest income / (exp)	(4.8)	(6.1)	(6.0)	(5.8)	(5.5)
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	82.6	91.5	67.0	70.0	74.2
Income tax	(24.9)	(27.1)	(20.8)	(21.7)	(23.0)
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	57.7	64.4	46.3	48.3	51.2
Core net profit	57.7	64.4	46.3	48.3	51.2

BALANCE SHEET (AUD m)

Cash & Short Term Investments	70.4	88.5	79.8	110.8	145.2
Accounts receivable	108.2	94.6	93.9	94.3	95.6
Inventory	100.1	173.6	200.0	200.0	200.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	476.3	532.8	521.8	509.8	496.8
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	19.5	20.8	23.1	23.8	24.5
Total assets	774.5	910.3	918.6	938.7	962.2
ST interest bearing debt	14.8	14.0	5.8	5.9	6.0
Accounts payable	117.7	153.1	133.6	133.6	135.2
Insurance contract liabilities	44.7	49.3	55.0	55.0	55.0
LT interest bearing debt	48.5	56.0	60.0	60.0	60.0
Other liabilities	128.0	150.0	142.0	146.0	150.0
Total Liabilities	353.9	422.1	396.5	400.7	406.5
Shareholders Equity	420.9	488.5	522.4	538.2	556.0
Minority Interest	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Total shareholder equity	420.6	488.2	522.2	538.0	555.8
Total liabilities and equity	774.5	910.3	918.6	938.7	962.2

CASH FLOW (AUD m)

Pretax profit	82.6	91.5	67.0	70.0	74.2
Depreciation & amortisation	18.4	19.7	21.0	22.0	23.0
Adj net interest (income)/exp	8.1	9.6	6.0	5.8	5.5
Change in working capital	14.8	(19.7)	(43.3)	1.6	2.0
Cash taxes paid	(24.2)	(23.4)	(20.8)	(21.7)	(23.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	91.6	68.0	23.9	71.9	76.2
Capex	(19.9)	(25.2)	(10.0)	(10.0)	(10.0)
Free cash flow	71.7	42.8	13.9	61.9	66.2
Dividends paid	(20.2)	(27.8)	(30.5)	(30.5)	(30.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(8.6)	(7.9)	3.9	(0.4)	(1.3)
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	42.9	7.2	(12.6)	31.0	34.4

FYE 30 Jun	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.7	24.4	(9.2)	0.4	1.5
EBITDA growth	15.6	10.8	(19.8)	3.9	5.0
EBIT growth	16.7	11.7	(25.1)	3.7	5.2
Pretax growth	18.0	10.8	(26.7)	4.4	6.0
Reported net profit growth	13.7	11.6	(28.2)	4.4	6.0
Core net profit growth	16.8	11.6	(28.2)	4.4	6.0
Profitability ratios (%)					
EBITDA margin	12.7	11.3	10.0	10.4	10.7
EBIT margin	10.5	9.4	7.8	8.0	8.3
Pretax profit margin	9.9	8.9	7.1	7.4	7.8
Payout ratio	43.5	46.8	65.1	62.4	58.9
DuPont analysis					
Net profit margin (%)	6.9	6.2	4.9	5.1	5.4
Revenue/Assets (x)	1.1	1.1	1.0	1.0	1.0
Assets/Equity (x)	1.8	1.9	1.8	1.7	1.7
ROAE (%)	14.6	14.2	9.2	9.1	9.4
ROAA (%)	7.7	7.6	5.1	5.2	5.4
Liquidity & Efficiency					
Cash conversion cycle	42.1	35.9	54.9	64.5	63.7
Days receivable outstanding	44.0	35.3	36.1	35.9	35.7
Days inventory outstanding	55.3	53.9	80.6	86.2	85.2
Days payables outstanding	57.2	53.3	61.8	57.6	57.3
Dividend cover (x)	2.3	2.1	1.5	1.6	1.7
Current ratio (x)	1.4	1.5	1.8	1.9	2.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.2	2.3	2.3	2.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	18.3	16.1	12.2	13.2	14.5
Debt/EBITDA (x)	0.6	0.6	0.7	0.7	0.6
Capex/revenue (%)	2.4	2.4	1.1	1.1	1.0
Net debt/ (net cash)	(7.1)	(18.5)	(14.0)	(44.9)	(79.2)

Source: Company; Maybank IBG Research

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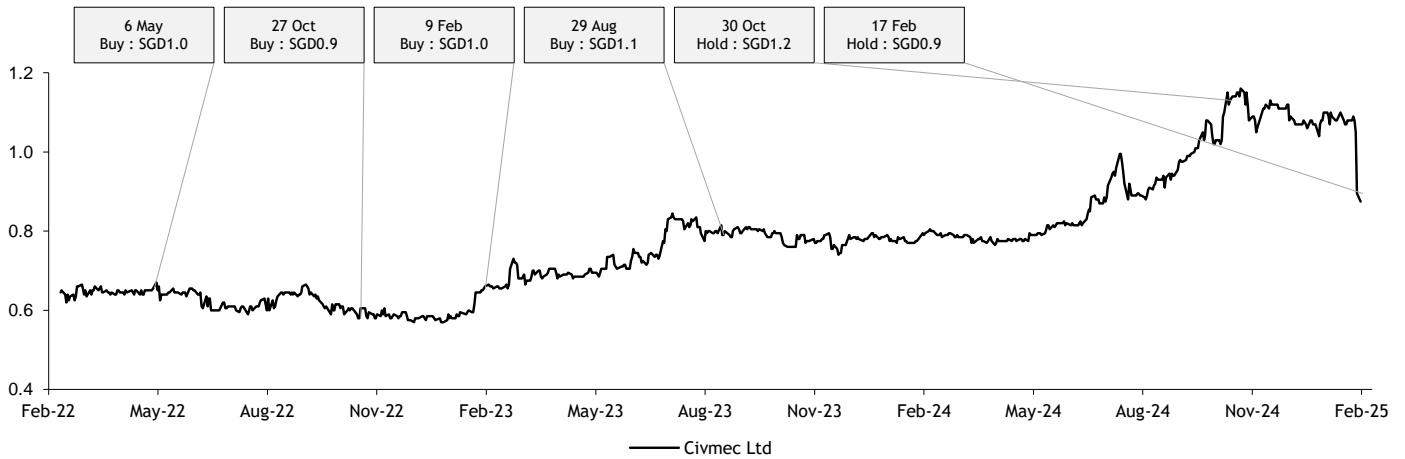
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