

Civmec Ltd (CVL SP)

Go defensive

Solid quarter; raising FY22-24E EPS by 1-3%

Civmec's 3QFY22 NPAT of AUD12.1m (+35.7% YoY) slightly beat our and street expectations. This took 9MFY22 earnings to AUD34.7m (+45% YoY) and accounted for c.77% of MIBG/consensus full year estimates. We raise our FY22-24E EPS by 1-3% given the better-than-expected margins. Nevertheless, we keep our 12-month TP at SGD1.00 (still based on an undemanding 10x FY23E P/E) to track the weaker AUDSGD exchange rate. Maintain BUY.

New contract wins and orderbook remains robust

Revenue for the quarter rose 4.9% YoY to AUD192.8m, mainly due to the timing of revenue recognition on projects. EBITDA margin expanded by 1.3ppt to 11.9% on easing labour constraints to service its existing construction projects in Western Australia (WA). During 3QFY22, the Group received several new orders and contract extensions across all segments worth AUD110m. We expect continued replenishment to its order book of AUD1.07b (as at end-Mar 2022) with strong tendering activity amid rising capex, particularly in the energy and resources sectors.

Henderson dry dock a positive for defence sector

In Mar 2022, the Australian Government announced an AUD4.3b investment to develop a large vessel dry dock in Henderson WA. It will provide an alternative to the only other naval assigned dry dock located in New South Wales. We think this is a positive development for Civmec as there will be potential opportunities for the group to be involved in the construction of the new dry dock and associated infrastructure. When completed, this also opens up possibilities for its growing defence segment with the build of more and larger vessels within the site.

Forms alliance arrangement with Serco

The Group recently formed an alliance arrangement with global defence contractor Serco in joint pursuit of the LAND-8710 contract. Both companies aim to deliver the next generation in assured amphibious capabilities for the Australian Defence Force (ADF). If awarded, this will be delivered under a new JV company, the Australian Maritime Alliance (AMA). We reckon the move would boost Civmec's credentials as an emerging defence player with the continued expansion of its sovereign naval shipbuilding and sustainment capability.

FYE Jun (AUD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	392	674	775	834	881
EBITDA	36	71	84	91	97
Core net profit	14	32	46	51	54
Core FDEPS (AUD)	0.03	0.06	0.09	0.10	0.11
Core FDEPS growth(%)	580.7	140.4	42.9	10.3	6.2
Net DPS (AUD)	0.01	0.02	0.03	0.03	0.04
Core FD P/E (x)	13.7	10.0	7.2	6.5	6.1
P/BV (x)	0.7	1.1	1.0	0.9	0.8
Net dividend yield (%)	2.7	3.1	3.8	4.5	5.3
ROAE (%)	6.2	11.7	15.0	14.9	14.3
ROAA (%)	2.6	5.3	7.2	7.7	7.9
EV/EBITDA (x)	6.5	4.9	4.3	3.7	3.3
Net gearing (%) (incl perps)	17.3	7.6	8.2	1.6	net cash
Consensus net profit	-	-	46	52	57
MKE vs. Consensus (%)	-	-	0.8	(0.6)	(4.2)

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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

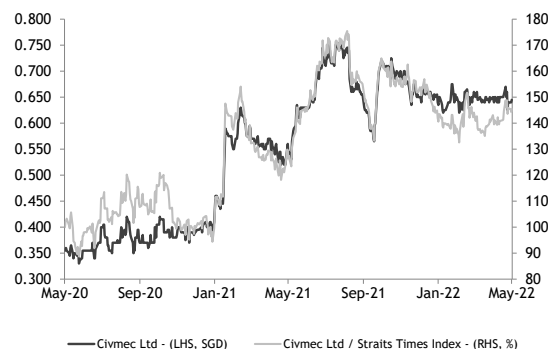
Statistics

52w high/low (SGD)	0.76/0.53
3m avg turnover (USDm)	0.1
Free float (%)	48.7
Issued shares (m)	502
Market capitalisation	SGD323.8M
	USD234M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(1)	19
Relative to index (%)	3	5	15

Source: FactSet

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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.

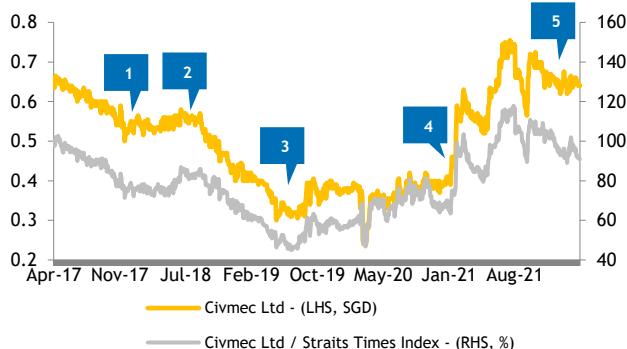
Provides turnkey solutions for growing sectors



Source: Company

Price Drivers

Historical share price trend



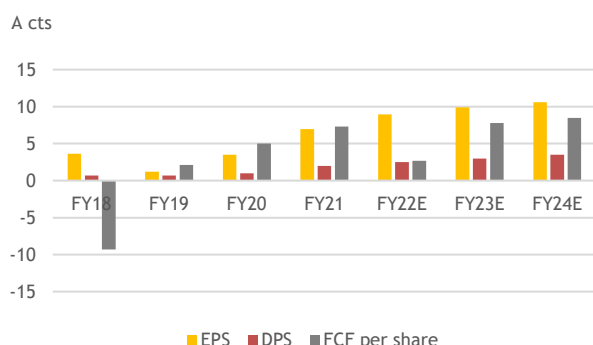
Source: Company, Maybank IBG Research

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 almost 12% over the next 3 years driven by strong tendering activity.
- Maintenance work is recurring in nature and accounted for about 27% of the Group's revenue in 1H FY22.
- 1H FY22 EBITDA margin of 11.1% (FY21: 10.9%; FY20: 9.8%) due to tight cost control and reduced interest expense.
- Expects to turn net cash in FY23E due to lower 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 ¹	na
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.

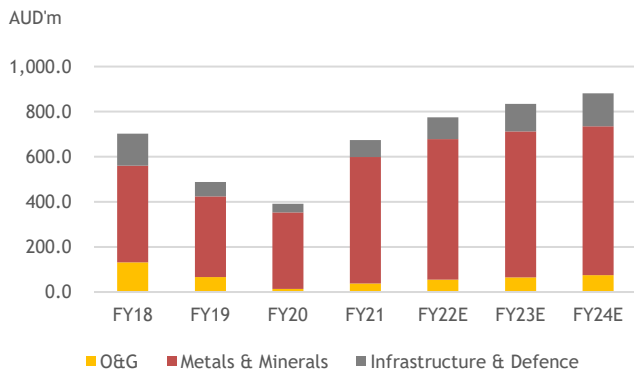
Key G metrics and issues

- 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).

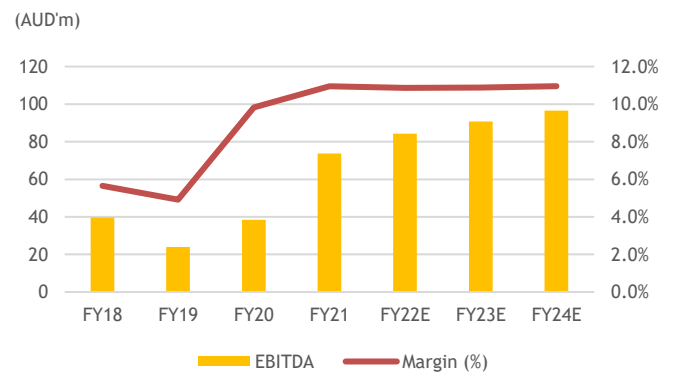
Focus charts

Fig 1: Revenue breakdown by key sectors



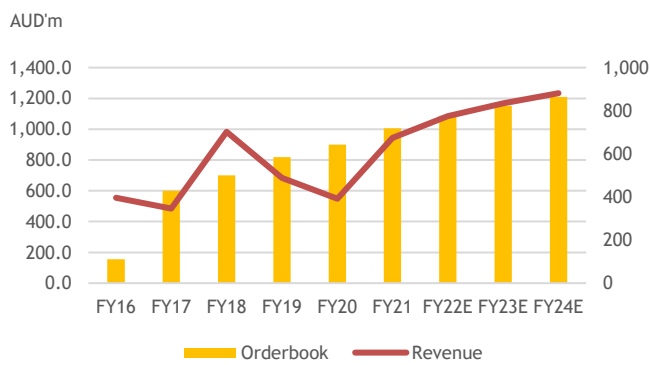
Source: Company data, Maybank IBG Research

Fig 2: EBITDA and margin



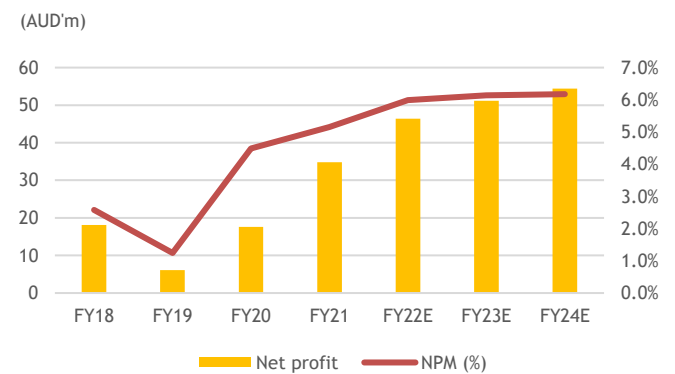
Source: Company data, Maybank IBG Research

Fig 3: Order book and revenue forecasts



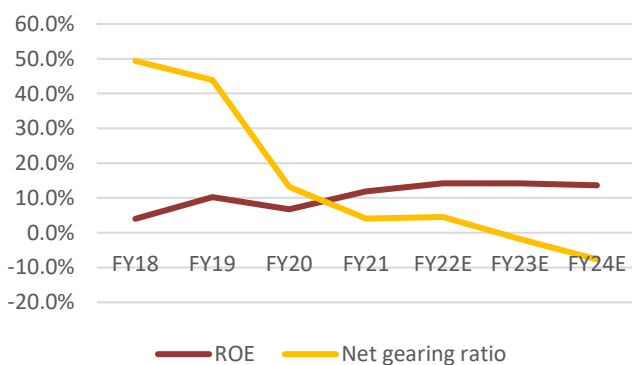
Source: Company data, Maybank IBG Research

Fig 4: Net profit and NPM



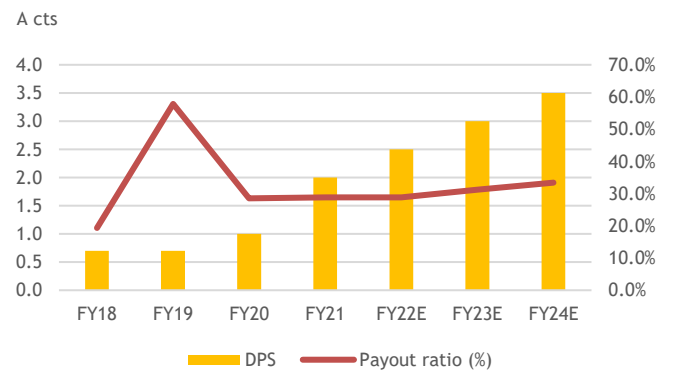
Source: Company data, Maybank IBG Research

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

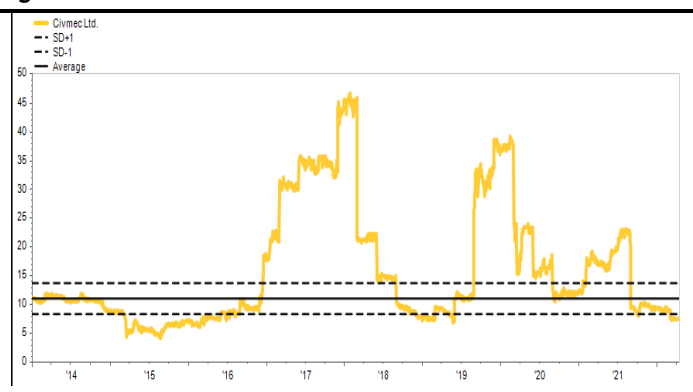
Valuation

Fig 7: Peers comparison table

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	0.64	06/30	232	9.4	7.3	6.6	5.8	5.9	3.3	12.8%
Australian peers													
CIMIC Group	CIM AU	NR	-	22.00	12/31	4,886	16.9	15.1	14.2	13.6	8.1	4.9	39.3%
Perenti Global	PRN AU	NR	-	0.73	06/30	359	6.6	7.0	5.6	4.7	2.7	0.4	-4.1%
Imdex	IMD AU	NR	-	2.39	06/30	664	30.6	21.3	20.1	18.9	12.6	3.2	13.3%
Emeco Holdings	EHL AU	NR	-	1	06/30	299	20.1	6.1	5.1	4.6	2.8	1.1	4.7%
NRW	NWH AU	NR	-	1.96	06/30	627	11.5	9.0	8.1	8.0	3.4	1.2	10.7%
GR Engineering Services	GNG AU	NR	-	1.94	06/30	219	13.4	9.8	12.6	-	6.4	1.8	53.8%
Monadelphous Group	MND AU	NR	-	10.53	06/30	703	21.3	20.7	17.9	15.2	8.4	2.5	12.1%
Downer EDI	DOW AU	NR	-	5.74	06/30	2,719	16.1	18.7	14.5	13.1	5.9	1.4	6.7%
Southern Cross Electrical	SXE AU	NR	-	0.61	06/30	111	9.1	9.8	8.5	-	3.9	-	8.4%
SRG Global	SRG AU	NR	-	0.62	06/30	194	23.0	13.1	9.7	9.0	5.5	1.0	5.4%
AVERAGE							16.9	13.1	11.6	10.9	6.0	1.9	0.2

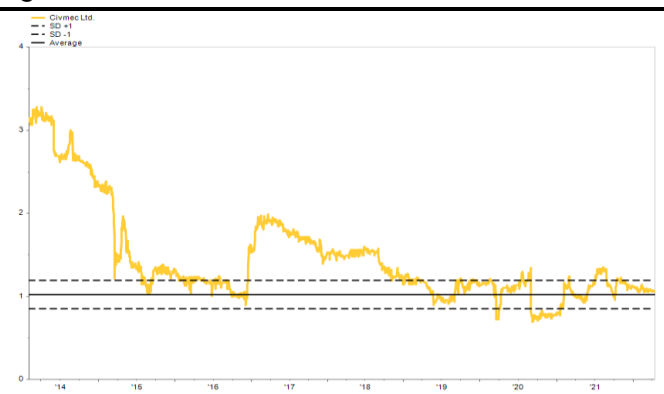
Source: FactSet, Bloomberg

Fig 8: Historical 12-month P/E band



Source: FactSet

Fig 9: Historical 12-month P/B band



Source: FactSet

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	14.2	7.1	7.2	6.5	6.1
Core P/E (x)	13.7	10.0	7.2	6.5	6.1
Core FD P/E (x)	13.7	10.0	7.2	6.5	6.1
P/BV (x)	0.7	1.1	1.0	0.9	0.8
P/NTA (x)	0.7	1.1	1.0	0.9	0.8
Net dividend yield (%)	2.7	3.1	3.8	4.5	5.3
FCF yield (%)	5.4	9.7	4.5	12.1	13.1
EV/EBITDA (x)	6.5	4.9	4.3	3.7	3.3
EV/EBIT (x)	9.9	6.2	5.2	4.6	4.0
INCOME STATEMENT (AUD m)					
Revenue	391.9	674.2	774.6	833.9	881.0
EBITDA	35.8	70.9	84.2	90.7	96.5
Depreciation	(10.5)	(14.2)	(15.5)	(16.5)	(17.5)
Amortisation	(2.0)	(1.0)	0.0	0.0	0.0
EBIT	23.3	55.7	68.7	74.2	79.0
Net interest income / (exp)	(2.6)	(6.5)	(6.0)	(5.0)	(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	20.8	49.2	62.7	69.2	73.5
Income tax	(5.2)	(15.6)	(16.3)	(18.0)	(19.1)
Minorities	(0.0)	(0.1)	0.0	0.0	0.0
Perpetual securities	(2.0)	(1.0)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	13.5	32.5	46.4	51.2	54.4
Core net profit	13.5	32.5	46.4	51.2	54.4
BALANCE SHEET (AUD m)					
Cash & Short Term Investments	27.7	48.2	35.3	56.6	80.5
Accounts receivable	74.5	87.5	93.0	95.9	96.9
Inventory	95.1	82.6	100.0	110.0	120.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	397.8	412.0	406.5	400.0	392.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.2	0.1	0.0	0.0	0.0
Other assets	5.0	6.5	11.8	13.0	14.2
Total assets	600.4	636.9	646.6	675.5	704.1
ST interest bearing debt	13.1	10.4	12.0	12.5	13.0
Accounts payable	91.1	87.4	103.3	103.7	101.6
Insurance contract liabilities	83.3	80.1	50.0	45.0	40.0
LT interest bearing debt	60.0	60.0	50.0	50.0	50.0
Other liabilities	90.0	107.0	105.0	103.0	101.0
Total Liabilities	337.3	345.1	320.0	314.0	305.5
Shareholders Equity	263.2	292.1	326.9	361.7	398.9
Minority Interest	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)
Total shareholder equity	263.1	291.9	326.6	361.5	398.6
Total liabilities and equity	600.4	636.9	646.6	675.5	704.1
CASH FLOW (AUD m)					
Pretax profit	20.8	49.2	62.7	69.2	73.5
Depreciation & amortisation	12.5	15.2	15.5	16.5	17.5
Adj net interest (income)/exp	5.3	9.4	6.0	5.0	5.5
Change in working capital	52.2	(4.2)	(37.1)	(17.5)	(18.1)
Cash taxes paid	(3.4)	(6.2)	(16.3)	(18.0)	(19.1)
Other operating cash flow	(2.0)	(1.0)	0.0	0.0	0.0
Cash flow from operations	80.1	52.9	24.8	50.2	53.8
Capex	(70.0)	(21.6)	(10.0)	(10.0)	(10.0)
Free cash flow	10.0	31.3	14.8	40.2	43.8
Dividends paid	(3.7)	(10.0)	(12.6)	(15.1)	(17.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(6.0)	(7.0)	(15.1)	(3.9)	(2.3)
Other invest/financing cash flow	0.0	0.0	0.0	0.0	0.0
Effect of exch rate changes	(2.0)	(1.0)	0.0	0.0	0.0
Net cash flow	(1.7)	13.2	(12.8)	21.2	23.9

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(19.8)	72.0	14.9	7.6	5.7
EBITDA growth	49.0	98.0	18.9	7.7	6.4
EBIT growth	112.0	138.8	23.4	8.0	6.5
Pretax growth	246.6	136.9	27.5	10.3	6.2
Reported net profit growth	580.7	140.4	42.9	10.3	6.2
Core net profit growth	580.7	140.4	42.9	10.3	6.2
Profitability ratios (%)					
EBITDA margin	9.1	10.5	10.9	10.9	11.0
EBIT margin	6.0	8.3	8.9	8.9	9.0
Pretax profit margin	5.3	7.3	8.1	8.3	8.3
Payout ratio	37.2	30.9	27.0	29.4	32.3
DuPont analysis					
Net profit margin (%)	3.4	4.8	6.0	6.1	6.2
Revenue/Assets (x)	0.7	1.1	1.2	1.2	1.3
Assets/Equity (x)	2.3	2.2	2.0	1.9	1.8
ROAE (%)	6.2	11.7	15.0	14.9	14.3
ROAA (%)	2.6	5.3	7.2	7.7	7.9
Liquidity & Efficiency					
Cash conversion cycle	96.0	43.0	39.8	41.5	45.1
Days receivable outstanding	65.7	43.3	41.9	40.8	39.4
Days inventory outstanding	107.6	53.4	47.7	51.0	53.0
Days payables outstanding	77.3	53.6	49.8	50.3	47.3
Dividend cover (x)	2.7	3.2	3.7	3.4	3.1
Current ratio (x)	1.0	1.1	1.2	1.5	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	2.0	2.2	2.3
Net gearing (%) (incl perps)	17.3	7.6	8.2	1.6	net cash
Net gearing (%) (excl. perps)	17.3	7.6	8.2	1.6	net cash
Net interest cover (x)	9.1	8.6	11.5	14.8	14.4
Debt/EBITDA (x)	2.0	1.0	0.7	0.7	0.7
Capex/revenue (%)	17.9	3.2	1.3	1.2	1.1
Net debt/ (net cash)	45.4	22.2	26.7	5.9	(17.5)

Source: Company; Maybank IBG Research

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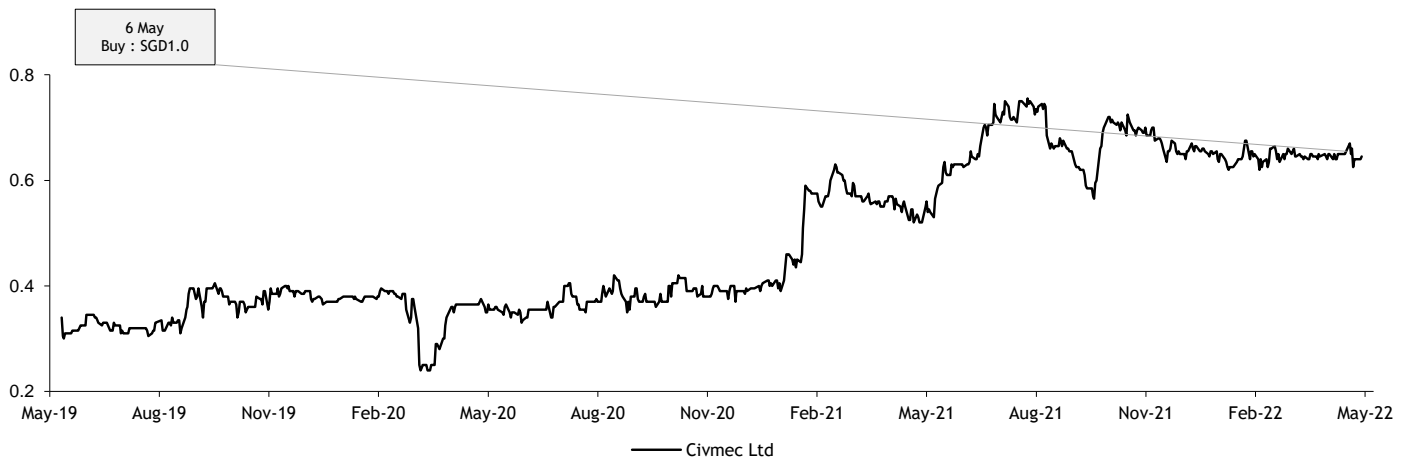
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