

COMPANY RESULTS

Civmec (CVL SP)

FY22: Results Above Expectations; Positive Outlook For Future Growth

Civmec's FY22 net profit of A\$51m (+47% yoy) beat our expectations by 13% due to robust revenue growth across most sectors and net margin expansion. Dividend also exceeded our expectations by 20%, with a full-year DPS of 3.0 A cents (+50% yoy), representing a dividend yield of 4.7%. Civmec remains positive on its future outlook given the strong tendering opportunities across all the sectors in which it operates. Maintain BUY with a 9% higher target price of S\$1.18.

FY22 RESULTS

Year to 31 Jun (A\$m)	FY22	FY21	yoy % chg
Revenue	809.3	674.2	20.0
EBITDA	94.5	73.8	28.1
EBITDA margin (%)	11.7%	10.9%	0.8 ppt
Net Profit	50.7	34.6	46.5
Net margin (%)	6.3%	5.1%	1.2 ppt

Source: Civmec, UOB Kay Hian

RESULTS

- Results above expectations from revenue growth across most sectors and margins expansion.** Civmec's FY22 net profit of A\$51m (+47% yoy) was above our expectations by 13%. Revenue grew 20% yoy, with the infrastructure & defence segment growing 95% yoy and the resources segment growing 13% yoy. On the other hand, the energy segment, which forms around 4% of total revenue, fell 21% yoy. EBITDA margin expanded by 0.8ppt while net margin grew 1.2ppt, mainly due to better operating leverage and more favourable contract terms as most of Civmec's customers in the resources industry are making good profit.
- Strong tender activity indicates more contract wins.** Tendering activity remains strong across all the sectors that Civmec operates in and it is focused on securing projects that will grow its workforce at a sustainable rate. Civmec remains positive about the pipeline and the opportunities to continually replenish its orderbook. Civmec is also increasingly focused on growing the proportion of revenue earned on long-term contracts.
- Progressing well on construction work of lithium plants in the green energy segment.** Following the successful completion of the contract with Albemarle for construction work at their Kemerton lithium plant, work has now commenced on Civmec's contract to construct the Kwinana lithium refinery for Covalent. This represents the fourth lithium plant that Civmec has been involved in.
- Two new facilities under development to support growth.** The previously announced facility in Port Hedland has achieved a significant milestone, with the recent settlement of the land purchase and gaining of development approval. The facility will be developed over the next 12 months. In addition, Civmec has acquired a 28,510 sqm piece of land in the region to establish a permanent facility. This facility will replace the leased facility Civmec currently occupies and allow it to expand its service offerings in the region.

KEY FINANCIALS

Year to 30 Jun (A\$m)	2021	2022	2023F	2024F	2025F
Net turnover	674	809	897	987	1,085
EBITDA	68	89	94	99	108
Operating profit	54	72	77	82	91
Net profit (rep./act.)	35	51	55	59	65
Net profit (adj.)	35	51	55	59	65
EPS (A\$ cent)	6.9	10.1	10.9	11.8	13.0
PE (x)	9.7	6.6	6.2	5.7	5.1
P/B (x)	1.1	0.9	0.8	0.7	0.7
EV/EBITDA (x)	5.4	4.2	3.9	3.7	3.4
Dividend yield (%)	3.0	4.5	4.8	5.2	6.0
Net margin (%)	5.2	6.3	6.1	6.0	6.0
Net debt/(cash) to equity (%)	4.0	8.9	0.8	(7.1)	(14.1)
Interest cover (x)	10.6	18.2	11.6	12.1	13.3
ROE (%)	12.5	15.3	14.0	13.8	13.8
Consensus net profit ()	-	-	52	57	-
UOBKH/Consensus (x)	-	-	1.04	1.05	-

Source: Civmec, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.64
Target Price	S\$1.18
Upside	+84.4%
(Previous TP)	S\$1.08)

COMPANY DESCRIPTION

Civmec is an integrated, multi-disciplined construction and engineering services provider to the oil and gas, metals and minerals, infrastructure, and defence markets.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CVL SP
Shares issued (m):	502.4
Market cap (S\$m):	321.6
Market cap (US\$m):	229.8
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low S\$0.725/S\$0.565

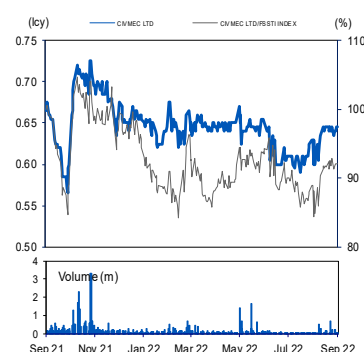
1mth	3mth	6mth	1yr	YTD
4.9	(0.8)	2.4	(3.8)	(3.8)

Major Shareholders

	%
James Finbarr Fitzgerald	19.5
Patrick John Tallon	19.5

FY23 NAV/Share (A\$)	81.60
FY23 Net Debt/Share (A\$)	0.01

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Positive industry outlook for the resources and energy segment.** Energy activity is expected to grow substantially over the next few years, peaking in FY24. Activity will be supported by major projects such as Gorgon Stage 2 (Western Australia), Pluto Stage 2, Scarborough Gas Field, the Surat Gas Project and the Barossa gas field. The hydrogen industry is gaining traction in Australia, and Civmec expects more projects to be announced over the forecast horizon. These include the Haber Project, Woodside's H2 Perth in Kwinana and Port Pirie Green Hydrogen Project (Southern Australia).
- **Well-positioned to tap on emerging opportunities in the clean and new energy segments.** With an increasing focus on emissions reductions worldwide, Australia is beginning to see increased activity with announcements for development of plants associated with supply of battery minerals, rare earths, hydrogen and ammonia plants. Australia's CSIRO (The Commonwealth Scientific and Industrial Research Organisation) has reported that in Australia and New Zealand, there are 60 hydrogen projects in various stages of development. The skills and experience Civmec has gained since inception puts it in a strong position to secure contracts for the manufacture of components and construction of these plants in the future.

EARNINGS REVISION/RISK

- We raise our FY23/24 earnings forecasts by 16%/12%, after raising our revenue estimates by 4%/4% and gross margin estimate by around 0.2ppt to 11.5%/11.7% to reflect more contract wins and better margins that Civmec should enjoy given the more favourable commodity prices which will benefit the majority of its customers.

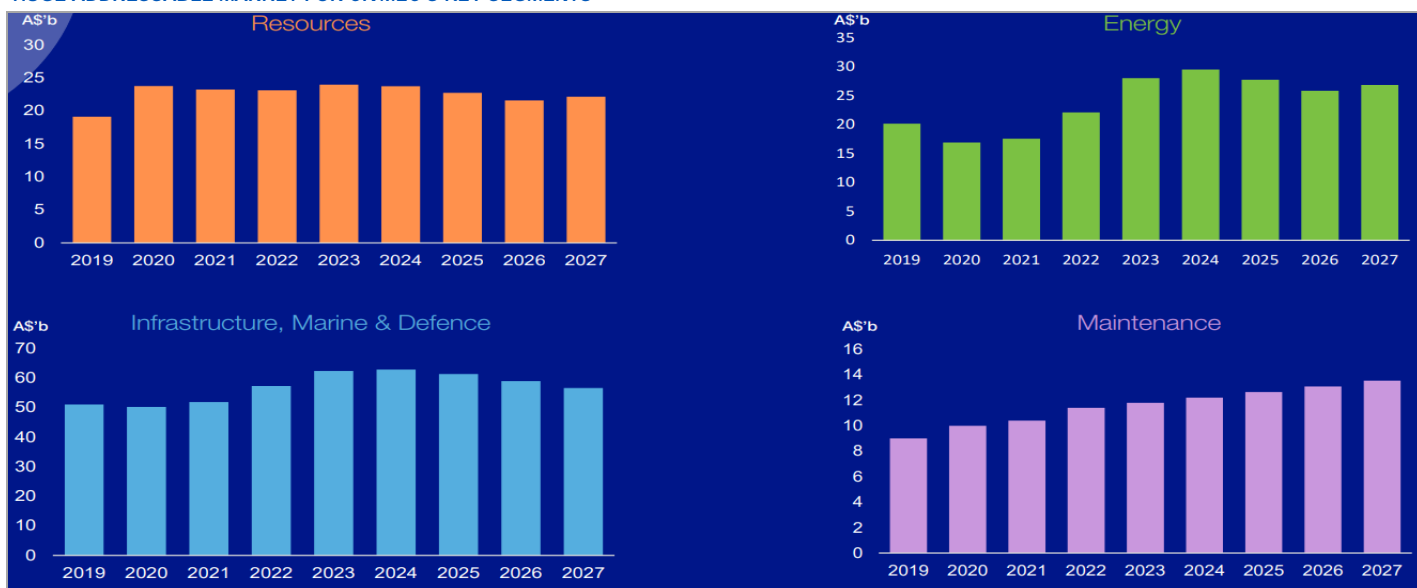
VALUATION/RECOMMENDATION

- **Maintain BUY with a 9% higher target price of S\$1.18**, pegged to 12x FY23F PE (1SD below five-year mean). We think the current valuation of 6x FY23F PE is attractive, given its strong growth profile of 10% three-year EPS CAGR for FY22-25 and huge orderbook, especially in the defence sector which has a long tenure and high barriers to entry. Civmec's peers are trading at an average of 15x FY22F PE.

SHARE PRICE CATALYST

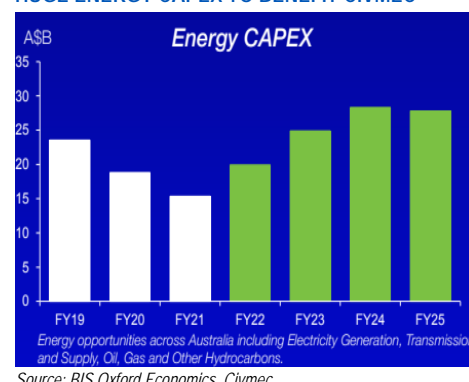
- Earnings surprise due to higher-than-expected contract wins and margin.
- Better-than-expected dividend.
- Takeover offer by strategic shareholder given the high entry barrier of defence business.

HUGE ADDRESSABLE MARKET FOR CIVMEC'S KEY SEGMENTS



Source: BIS Oxford Economics, Civmec

HUGE ENERGY CAPEX TO BENEFIT CIVMEC



Source: BIS Oxford Economics, Civmec

PROFIT & LOSS

Year to 30 Jun (A\$m)	2022	2023F	2024F	2025F
Net turnover	809.3	897.0	987.3	1,085.0
EBITDA	88.5	94.2	98.6	108.3
Deprec. & amort.	16.6	17.0	17.0	17.0
EBIT	71.9	77.2	81.6	91.3
Total other non-operating income	2.9	3.0	3.0	1.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(4.9)	(8.1)	(8.1)	(8.1)
Pre-tax profit	70.0	72.0	76.5	84.2
Tax	(19.2)	(17.3)	(17.0)	(18.7)
Minorities	0.0	(0.1)	(0.1)	(0.1)
Net profit	50.8	54.7	59.5	65.4
Net profit (adj.)	50.8	54.7	59.5	65.4

BALANCE SHEET

Year to 30 Jun (A\$m)	2022	2023F	2024F	2025F
Fixed assets	448.1	447.1	446.1	445.1
Other LT assets	18.2	18.2	18.2	18.2
Cash/ST investment	40.8	70.7	106.1	144.3
Other current assets	218.5	244.0	268.4	294.8
Total assets	725.7	780.0	838.8	902.4
ST debt	28.0	28.0	28.0	28.0
Other current liabilities	180.7	196.4	213.2	231.4
LT debt	46.0	46.0	46.0	46.0
Other LT liabilities	99.9	99.9	99.9	99.9
Shareholders' equity	371.4	410.0	451.9	497.2
Minority interest	(0.3)	(0.2)	(0.2)	(0.1)
Total liabilities & equity	725.7	780.0	838.8	902.4

CASH FLOW

Year to 30 Jun (A\$m)	2022	2023F	2024F	2025F
Operating	1.8	61.9	69.0	74.3
Pre-tax profit	70.0	72.0	76.5	84.2
Tax	(27.8)	(17.3)	(17.0)	(18.7)
Deprec. & amort.	16.6	17.0	17.0	17.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	(56.7)	(9.8)	(7.6)	(8.2)
Non-cash items	(0.2)	0.0	0.0	0.0
Other operating cashflows	(0.2)	0.0	0.0	0.0
Investing	(6.5)	(16.0)	(16.0)	(16.0)
Capex (growth)	(6.9)	(16.0)	(16.0)	(16.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	0.1	0.0	0.0	0.0
Financing	(2.6)	(16.1)	(17.6)	(20.1)
Dividend payments	(10.0)	(16.1)	(17.6)	(20.1)
Proceeds from borrowings	154.4	0.0	0.0	0.0
Loan repayment	(139.5)	0.0	0.0	0.0
Others/interest paid	(7.5)	0.0	0.0	0.0
Net cash inflow (outflow)	(7.3)	29.9	35.4	38.2
Beginning cash & cash equivalent	48.2	40.8	70.7	106.1
Changes due to forex impact	(0.0)	0.0	0.0	0.0
Ending cash & cash equivalent	40.8	70.7	106.1	144.3

KEY METRICS

Year to 30 Jun (A\$m)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	10.9	10.5	10.0	10.0
Pre-tax margin	8.6	8.0	7.7	7.8
Net margin	6.3	6.1	6.0	6.0
ROA	7.5	7.3	7.3	7.5
ROE	15.3	14.0	13.8	13.8
Growth				
Turnover	20.0	10.8	10.1	9.9
EBITDA	29.5	6.4	4.7	9.8
Pre-tax profit	39.4	2.9	6.2	10.0
Net profit	46.0	7.7	8.7	10.0
Net profit (adj.)	46.0	7.7	8.7	10.0
EPS	45.7	7.7	8.7	10.0
Leverage				
Debt to total capital	16.6	15.3	14.1	13.0
Debt to equity	19.9	18.0	16.4	14.9
Net debt/(cash) to equity	8.9	0.8	(7.1)	(14.1)
Interest cover (x)	18.2	11.6	12.1	13.3

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