

COMPANY UPDATE

Civmec (CVL SP)

Major Contract Win From Rio Tinto

Civmec has secured a major contract worth over A\$330m for the Rio Tinto Western Range Project in Western Australia. The iron ore project will commence off-site works immediately, while mobilisation to site will start in mid-23 and is expected to complete in 1HFY25. The latest orderbook has increased 23% to A\$1.15b, from A\$935m as of 1QFY23. We raise our FY23 and FY24 EPS by 3% and 6%. Our target price fell 7% to S\$1.10 after adjusting for a lower PE multiple based on -1SD to mean PE. Maintain BUY.

WHAT'S NEW

- **Contract win of more than A\$330m from Rio Tinto.** On 9 Jan 23, Civmec announced that it has won a major contract worth more than A\$330m for the Rio Tinto Western Range Project at its Paraburdoo site in the Pilbara region of Western Australia. The iron ore project includes Greenfields and Brownfields scope with the construction of a new Run of Mine (ROM) pad, primary crushing facility, overland conveying circuit and modifications to the Coarse Ore Stockpile (COS) and a downstream conveying system.
- **Wide ranging greenfield and brownfield scopes.** The greenfield scope includes a new primary crushing facility, discharge conveyor and transfer station and a 17km overland conveying system that transfers the ore through to the existing Paraburdoo COS. The overland conveying system includes multiple conveyor flights, transfer stations and creek crossings to link the new primary crusher to the existing process plant. To tie into the existing plant, the brownfield scope includes extensive modifications to the current Paraburdoo COS and downstream conveying system. This includes addition of new feed points at the COS, new ore transfer equipment, conveyor replacements, conveyor upgrades, drive replacements and a range of other general modifications to receive the new ore stream.
- **Expect notable earnings contributions for FY23 and FY24.** The iron ore project will commence off-site works immediately, while mobilisation to site will start in mid-23 and the project is expected to complete in 1HFY25. As a result, we expect a half year contribution for FY23, followed by a full-year contribution for FY24 for this project. Based on a conservative net margin assumption of 4%, this project could generate total earnings of around A\$13.2m over 24 months. Hence, this could raise FY23 earnings by A\$3.3m, FY24 earnings by A\$6.6m and FY25 earnings by A\$3.3m.
- **Strong tender activities indicate more contract wins.** Tendering activity remains strong across all sectors that Civmec operates in and it is focused on securing projects that will allow Civmec to 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.

KEY FINANCIALS

Year to 30 Jun (A\$m)	2021	2022	2023F	2024F	2025F
Net turnover	674	809	916	1,029	1,107
EBITDA	68	89	96	103	110
Operating profit	54	72	79	86	94
Net profit (rep./act.)	35	51	56	63	67
Net profit (adj.)	35	51	56	63	67
EPS (A\$ cent)	6.9	10.1	11.1	12.4	13.3
PE (x)	9.1	6.2	5.7	5.1	4.7
P/B (x)	1.1	0.9	0.8	0.7	0.6
EV/EBITDA (x)	4.7	3.6	3.3	3.1	2.9
Dividend yield (%)	3.2	4.8	5.1	5.5	6.3
Net margin (%)	5.2	6.3	6.1	6.1	6.1
Net debt/(cash) to equity (%)	4.0	8.9	0.8	(7.3)	(14.8)
Interest cover (x)	10.6	18.2	11.8	12.6	13.6
ROE (%)	12.5	15.3	14.4	14.5	14.0
Consensus net profit ()	-	-	54	58	61
UOBKH/Consensus (x)	-	-	1.04	1.09	1.10

Source: Civmec, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.58
Target Price	S\$1.10
Upside	+89.7%
(Previous TP)	S\$1.18)

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.

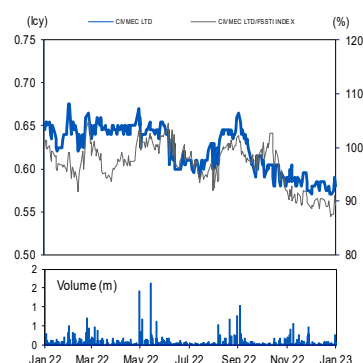
STOCK DATA

GICS sector				Industrials
Bloomberg ticker:				CVL SP
Shares issued (m):				505.1
Market cap (S\$\$m):				293.0
Market cap (US\$m):				219.9
3-mth avg daily t'over (US\$m):				0.04
Price Performance (%)				
52-week high/low				S\$0.675/S\$0.570
1mth	3mth	6mth	1yr	YTD
0.9	(4.1)	(4.9)	(10.1)	0.9

Major Shareholders

James Finbarr Fitzgerald	19.5
Patrick John Tallon	19.5
-	-
FY23 NAV/Share (A\$)	0.81
FY23 Net Debt/Share (A\$)	0.01

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Positive industry outlook for resources and energy.** Energy activity is expected to grow substantially over the next few years, with a peak 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 the supply of battery minerals, rare earths, hydrogen and ammonia plants. Australia's The Commonwealth Scientific and Industrial Research Organisation (CSIRO) 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/FY24/FY25 earnings forecasts by 3%/6%/3%, after raising our revenue estimates by 2%/4%/2% respectively to reflect the major contract win of more than A\$330m from Rio Tinto.

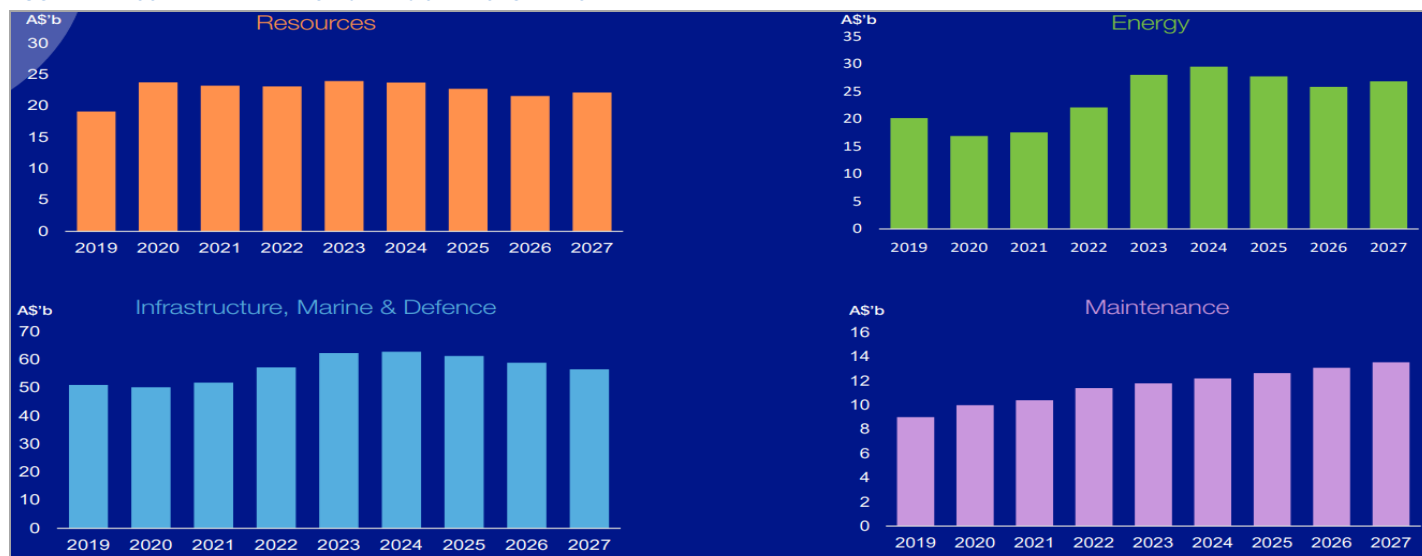
VALUATION/RECOMMENDATION

- **Maintain BUY with a 6% lower target price of S\$1.10**, pegged to 11x FY23F PE (based on an unchanged 1SD below five-year mean). Our PE peg has been adjusted downward from 12x to 11x due to the reduction in the PE band over the last 12 months as share price has fallen marginally, despite a huge increase in earnings. 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. Civmec's peers are trading at an average of 12x 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

CIVMEC'S LONG-TERM PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (A\$m)	2022	2023F	2024F	2025F
Net turnover	809.3	916.0	1,029.4	1,106.8
EBITDA	88.5	96.2	102.9	110.5
Deprec. & amort.	16.6	17.0	17.0	17.0
EBIT	71.9	79.2	85.9	93.5
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	74.0	80.7	86.4
Tax	(19.2)	(17.8)	(17.9)	(19.2)
Minorities	0.0	(0.1)	(0.1)	(0.1)
Net profit	50.8	56.2	62.8	67.1
Net profit (adj.)	50.8	56.2	62.8	67.1

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	70.5	107.2	148.7
Other current assets	218.5	249.1	279.8	300.7
Total assets	725.7	785.0	851.2	912.7
ST debt	28.0	28.0	28.0	28.0
Other current liabilities	180.7	199.9	221.0	235.5
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	411.4	456.5	503.5
Minority interest	(0.3)	(0.2)	(0.2)	(0.1)
Total liabilities & equity	725.7	785.0	851.2	912.7

CASH FLOW

Year to 30 Jun (A\$m)	2022	2023F	2024F	2025F
Operating	1.8	61.9	70.3	77.7
Pre-tax profit	70.0	74.0	80.7	86.4
Tax	(27.8)	(17.8)	(17.9)	(19.2)
Deprec. & amort.	16.6	17.0	17.0	17.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	(56.7)	(11.4)	(9.5)	(6.5)
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)	(16.2)	(17.7)	(20.2)
Dividend payments	(10.0)	(16.2)	(17.7)	(20.2)
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)	29.7	36.6	41.5
Beginning cash & cash equivalent	48.2	40.8	70.5	107.2
Changes due to forex impact	(0.0)	0.0	0.0	0.0
Ending cash & cash equivalent	40.8	70.5	107.2	148.7

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	8.1	7.8	7.8
Net margin	6.3	6.1	6.1	6.1
ROA	7.5	7.4	7.7	7.6
ROE	15.3	14.4	14.5	14.0
Growth				
Turnover	20.0	13.2	12.4	7.5
EBITDA	29.5	8.7	6.9	7.4
Pre-tax profit	39.4	5.8	9.1	7.0
Net profit	46.0	10.7	11.7	7.0
Net profit (adj.)	46.0	10.7	11.7	7.0
EPS	45.7	10.1	11.7	7.0
Leverage				
Debt to total capital	16.6	15.3	14.0	12.8
Debt to equity	19.9	18.0	16.2	14.7
Net debt/(cash) to equity	8.9	0.8	(7.3)	(14.8)
Interest cover (x)	18.2	11.8	12.6	13.6

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