

COMPANY RESULTS

Civmec (CVL SP)

FY23: Dividend Beats Expectation By 25%; Tendering Activities Remain Strong

FY23 earnings of A\$57.7m (+13.7% yoy) are slightly above expectations, forming 103% of our full-year estimate. This was driven by higher gross profits across all sectors, leading to a 0.6ppt yoy expansion in net margin. Dividend beat our expectation by 25%, with a full-year DPS of 5.0 A cents (+66.7% yoy), representing a dividend yield of 6%. Civmec continues to see strong tendering activities across all sectors and we expect its robust orderbook to drive further growth. Maintain BUY with a target price of S\$1.23.

FY23 RESULTS

Year to 31 Jun (A\$m)	FY23	FY22	yoy % chg
Revenue	830.9	809.3	2.7
EBITDA	109.1	94.5	15.4
Net Profit	57.7	50.7	13.7
Net margin (%)	6.9%	6.3%	0.6ppt
Operating cash flow	122.8	36.2	239.2
Order book	1,149	1,039	10.6

Source: Civmec, UOB Kay Hian

RESULTS

- Results in line with expectations; revenue growth across most sectors with strong net margin expansion.** Civmec's FY23 earnings of A\$57.7m (+13.7% yoy) are in line, forming 103% of our full-year forecast. Revenue rose 2.7% yoy to A\$830.9m, mainly due to higher yoy contributions from the energy and resources segments of 42.3% and 7.6% respectively, offset by the 26.2% yoy fall in revenue from the infrastructure, marine and defence segments (13% of FY23 revenue). However, gross profit margins across all sectors improved, driving a 0.6ppt yoy increase in net margin to 6.9%. Strong improvement in net margin was driven by the delivery of higher return projects, better cost management and optimisation of productivity.
- Positive outlook amid buoyant tendering activities.** Tendering activities continues its strong momentum across all sectors that Civmec has a presence in. With a focus on securing projects that will help retain talent and build a sustainable workforce, Civmec is progressing steadily as its employees transition from completed projects to new projects, with little change to its top- and bottom lines during the year. Its orderbook stood at around A\$1.15b (-3.4% qoq; +10.6% yoy) as at end-FY23, securing most of the revenue for the next 12 months with a portion extending up to 2029. Civmec continues to maintain a good track record of performance and delivery to achieve a high level of client satisfaction.
- Final dividend a positive surprise and company turned into net cash position.** Given its robust cash generated from operations in FY23 (+239% yoy to A\$123m), Civmec has declared a final dividend of 3.0 A cents (+50% yoy), bringing full-year dividend to 5.0 A cents (FY22: 4.0 A cents). This is above management's previous guidance of maintaining its final dividend and represents an attractive dividend yield of 6%. Civmec has also turned into net cash position for the first time in FY23 (A\$14m vs A\$33m net debt in FY22).

KEY FINANCIALS

Year to 30 Jun (A\$m)	2022	2023	2024F	2025F	2026F
Net turnover	809	831	1,029	1,107	1,191
EBITDA	89	103	103	111	119
Operating profit	72	85	86	94	102
Net profit (rep./fact.)	51	58	63	67	74
Net profit (adj.)	51	58	63	67	74
EPS (A\$ cent)	10.1	11.4	12.4	13.3	14.6
PE (x)	9.0	7.9	7.3	6.8	6.2
P/B (x)	1.2	1.1	1.0	0.9	0.8
EV/EBITDA (x)	5.0	4.3	4.3	4.0	3.7
Dividend yield (%)	3.3	5.5	5.5	6.6	6.6
Net margin (%)	6.3	6.9	6.1	6.1	6.2
Net debt/(cash) to equity (%)	8.9	(3.3)	(8.5)	(14.2)	(20.0)
Interest cover (x)	18.2	21.6	12.6	13.5	14.5
ROE (%)	15.3	14.6	14.3	14.1	14.2
Consensus net profit ()	-	-	62	65	-
UOBKH/Consensus (x)	-	-	1.01	1.03	-

Source: Civmec, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.790
Target Price	S\$1.23
Upside	+55.7%

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):	399.0
Market cap (US\$m):	294.6
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

52-week high/low	S\$0.845/S\$0.570			
1mth	3mth	6mth	1yr	YTD
(1.9)	6.8	18.8	22.5	37.4

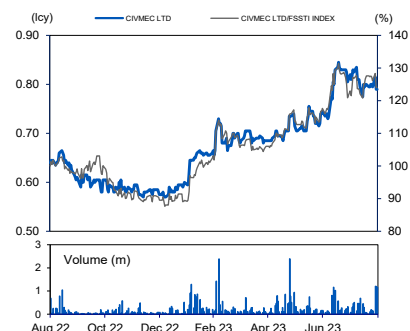
Major Shareholders

James Finbarr Fitzgerald	19.5
Patrick John Tallon	19.5

FY24 NAV/Share (A\$) 90.76

FY24 Net Debt/Share (A\$) 0.08

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Well-positioned to secure major projects.** Civec has completed several projects during the year, and continues to secure notable contracts. The surge in activity levels is supported by major projects such as the supply of subsea structures for the Scarborough and separate retrievable manifold (SCMS) projects, the Covalent Lithium refinery and additional fabrication work for the Iron Bridge magnetite project. Australia is also seeing higher activity levels with the hydrogen industry gaining traction to reduce emissions. As for the defence segment, since the Australian Government's Defence Strategic Review in Apr 23, the Australian Navy's surface fleet review is likely to be released by end-23. The knowledge and expertise that Civec gained from its completed projects have placed it in a favourable position to secure more projects in the future.
- Top-line growth from term contracts and maintenance services.** In line with this strategy, Civec has renewed or signed new term and maintenance contracts with several clients including: a) acceptance onto BHP's Western Australian iron ore operations' site engineering panel of contractors. This is a three-year contract with an option for a two-year extension and allows Civec to tender for maintenance and capital upgrades across BHP's Western Australian iron ore operations in the Pilbara region; b) an "umbrella" services agreement to provide construction services for the delivery of sustaining capital projects for Rio Tinto facilities across multiple sites. This is a three-year contract with options for extension; c) providing multidisciplinary services to Talison Lithium's Greenbushes mine site and lithium processing facility, where Civec is now undertaking a significant portion of regular shutdown activities; d) a contract extension for the Alcoa Calciner Maintenance Major Overhaul and Repair Services Contract; and e) a Master Service Agreement with Independence Group NL (IGO) for project and maintenance work across its lithium facilities in Western Australia.

EARNINGS REVISION/RISK

- We maintain our earnings forecasts.

VALUATION/RECOMMENDATION

- Maintain BUY with a target price of S\$1.23**, pegged to 11x FY24F PE (based on 1SD below five-year mean). We think the current valuation of 8x FY24F PE is attractive, given its strong growth profile of 10% three-year EPS CAGR for FY22-25 and huge orderbook. Civec's Australian peers are trading at an average of 15x FY24F 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 barriers of entry for the defence business.

PEER COMPARISON

Company	Ticker	Price @ 29-Aug-23 (lcy)	Market Cap (US\$m)	PE			P/B 2023 (x)	EVEBITDA 2023 (x)	ROE 2023 (%)	Yield 2023 (%)	Net Margin	
				2022 (x)	2023 (x)	2024 (x)					2023 (%)	2024 (%)
Australia Peers												
MONadelphous	MND AU	14.33	891	26.1	25.7	21.3	3.2	13.2	12.6	3.4	3.1	3.3
NRW Holdings	NWH AU	2.71	784	13.5	14.3	10.5	2.0	4.8	14.2	5.7	3.2	4.1
Imdex Ltd	IMD AU	1.515	495	13.6	19.1	13.5	1.4	8.4	8.2	2.4	8.5	13.0
Austal	ASB AU	1.875	438	8.5	n.a.	13.3	0.8	15.6	(1.5)	3.7	(0.9)	3.3
Average				15.4	19.7	14.6	1.8	10.5	8.4	3.8	3.5	5.9
Asia Peers												
ST Engineering	STE SP	3.84	8,837	22.4	20.5	19.5	4.8	12.9	24.1	4.2	6.0	7.0
Sany Heavy Equip	631 HK	11.52	4,681	20.2	15.1	11.5	3.4	10.9	20.8	1.6	10.6	10.6
Favelle Favco	FAVCO MK	1.82	92	10.9	7.3	5.7	n.a.	4.8	7.8	2.4	8.3	9.8
Average				17.8	14.3	12.2	4.1	9.5	17.6	2.7	8.3	9.2
Singapore Peers												
Dyna-Mac	DMHL SP	0.39	299	30.7	19.5	15.6	n.a.	15.6	n.a.	1.5	5.6	5.9
Cse Global	CSE SP	0.485	220	54.5	14.4	11.9	1.4	7.2	9.7	5.7	3.1	3.3
Penguin Int	PBS SP	0.83	135	17.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Marco Polo Marine	MPM SP	0.049	136	8.2	11.5	10.0	1.1	6.8	10.3	0.0	2.2	2.2
Atlantic Nav	ATL SP	0.295	114	10.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average				24.2	15.1	12.5	1.3	9.8	10.0	2.4	3.7	3.8
Civec	CVL SP	0.815	304	9.2	8.4	7.5	1.2	5.4	13.7	4.3	7.2	7.1

Source: Bloomberg, UOB Kay Hian

LONG-TERM PE BAND



Source: Bloomberg, UOB Kay Hian

PUBLICLY AVAILABLE INFORMATION SUGGESTED ~A\$330B OF TARGETABLE OPPORTUNITIES ACROSS THE SECTORS CIVMEC OPERATE IN AUSTRALIA TO FY25



Source: BIS Oxford Economics

PROFIT & LOSS

Year to 30 Jun (A\$m)	2023	2024F	2025F	2026F
Net turnover	830.9	1,029.0	1,107.0	1,191.4
EBITDA	103.1	103.0	110.7	118.8
Deprec. & amort.	18.4	17.0	16.9	16.8
EBIT	84.7	86.0	93.9	101.9
Total other non-operating income	2.6	3.0	1.0	1.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(4.8)	(8.2)	(8.2)	(8.2)
Pre-tax profit	82.6	80.8	86.7	94.7
Tax	(24.9)	(17.9)	(19.2)	(21.0)
Minorities	(0.0)	(0.1)	(0.1)	(0.1)
Net profit	57.7	62.8	67.4	73.6
Net profit (adj.)	57.7	62.8	67.4	73.6

BALANCE SHEET

Year to 30 Jun (A\$m)	2023	2024F	2025F	2026F
Fixed assets	476.3	475.3	474.5	473.6
Other LT assets	17.2	17.2	17.2	17.2
Cash/ST investment	70.4	95.3	126.8	164.1
Other current assets	210.6	263.1	284.2	306.7
Total assets	774.5	851.0	902.7	961.6
ST debt	8.0	8.0	8.0	8.0
Other current liabilities	189.4	228.3	242.8	258.3
LT debt	48.5	48.5	48.5	48.5
Other LT liabilities	108.0	108.0	108.0	108.0
Shareholders' equity	420.9	458.4	495.5	538.8
Minority interest	(0.3)	(0.2)	(0.1)	(0.1)
Total liabilities & equity	774.5	851.0	902.7	961.6

CASH FLOW

Year to 30 Jun (A\$m)	2023	2024F	2025F	2026F
Operating	95.2	66.2	77.8	83.6
Pre-tax profit	82.6	80.8	86.7	94.7
Tax	(24.2)	(17.9)	(19.2)	(21.0)
Deprec. & amort.	18.4	17.0	16.9	16.8
Associates	0.0	0.0	0.0	0.0
Working capital changes	14.8	(13.7)	(6.5)	(6.9)
Non-cash items	(0.3)	0.0	0.0	0.0
Other operating cashflows	4.0	0.0	0.0	0.0
Investing	(19.4)	(16.0)	(16.0)	(16.0)
Capex (growth)	(19.9)	(16.0)	(16.0)	(16.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.4	0.0	0.0	0.0
Others	0.1	0.0	0.0	0.0
Financing	(46.3)	(25.3)	(30.3)	(30.3)
Dividend payments	(20.2)	(25.3)	(30.3)	(30.3)
Proceeds from borrowings	45.5	0.0	0.0	0.0
Loan repayment	(63.0)	0.0	0.0	0.0
Others/interest paid	(8.6)	0.0	0.0	0.0
Net cash inflow (outflow)	29.5	24.9	31.5	37.3
Beginning cash & cash equivalent	40.8	70.4	95.3	126.8
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	70.4	95.3	126.8	164.1

KEY METRICS

Year to 30 Jun (A\$m)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	12.4	10.0	10.0	10.0
Pre-tax margin	9.9	7.9	7.8	8.0
Net margin	6.9	6.1	6.1	6.2
ROA	7.7	7.7	7.7	7.9
ROE	14.6	14.3	14.1	14.2
Growth				
Turnover	2.7	23.8	7.6	7.6
EBITDA	16.5	(0.1)	7.5	7.3
Pre-tax profit	18.0	(2.1)	7.2	9.3
Net profit	13.6	9.0	7.2	9.3
Net profit (adj.)	13.6	9.0	7.2	9.3
EPS	13.0	8.9	7.2	9.3
Leverage				
Debt to total capital	11.8	11.0	10.2	9.5
Debt to equity	13.4	12.3	11.4	10.5
Net debt/(cash) to equity	(3.3)	(8.5)	(14.2)	(20.0)
Interest cover (x)	21.6	12.6	13.5	14.5

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