

COMPANY RESULTS

Civmec (CVL SP)

3QFY23: Robust Earnings Growth Of 20%; Laggard VS Singapore O&G Peers

Civmec's 3QFY23 earnings of A\$15m (+20% yoy) is in line. 9MFY23 formed 77% of our full-year estimate. 3QFY23 net margin grew 1.5ppt yoy. The strong improvement in net margin was driven by delivery of higher-return projects. Civmec continues to see strong tendering activity across all sectors. Yield is attractive at 6% for FY24. Maintain BUY with a 12% higher target price of S\$1.23. Civmec is a laggard to Singapore's oil and gas related stocks with its ytd share price performance of +22% (vs peers' +25-174%).

3QFY23 RESULTS

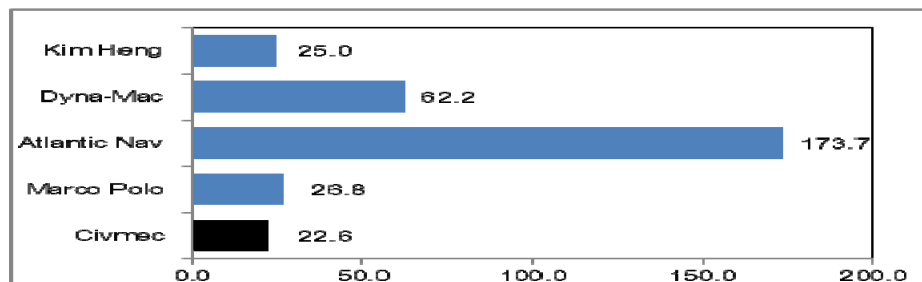
Year to 31 Jun (A\$m)	3QFY23	3QFY22	yoy % chg
Revenue	187.8	192.9	(2.7)
EBITDA	27.4	23.0	19.4
Net Profit	14.6	12.1	20.2
Net margin (%)	7.8%	6.3%	1.5 ppt
Operating cash flow (9MFY23 vs 9MFY22)	67.7	13.9	387.1
Order book	1,189	1,178	0.9

Source: Civmec, UOB Kay Hian

RESULTS

- Results in line with expectation; earnings up 20% yoy with strong net margin expansion.** Civmec's 3QFY23 earnings of A\$15m (+20% yoy) is in line, with 9MFY23 accounting for 77% of our full-year estimate. 3QFY23 revenue fell 3% yoy to A\$188m, but net margin grew 1.5ppt yoy to 7.8%. Orderbook is maintained at around A\$1.2b. The strong improvement in net margin was driven by delivery of higher-return projects, better cost management, optimisation of productivity, and working with clients proactively along the project life cycle.
- Outlook remains robust.** Civmec continues to see strong tendering activity across all sectors. It continues to focus on securing good return projects, optimise workforce utilisation and maintain a strong, high quality orderbook. Also, Civmec is increasingly regarded by its clients as the go-to contractor for reliable delivery and time-critical services.

YTD SHARE PRICE PERFORMANCE OF CIVMEC VS SINGAPORE'S LISTED OIL & GAS RELATED PEERS



Source: Bloomberg, UOB Kay Hian

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)	11.4	7.8	7.1	6.4	5.9
P/B (x)	1.4	1.1	1.0	0.9	0.8
EV/EBITDA (x)	5.9	4.6	4.2	4.0	3.7
Dividend yield (%)	2.5	3.8	5.1	6.3	7.6
Net margin (%)	5.2	6.3	6.1	6.1	6.1
Net debt/(cash) to equity (%)	4.0	8.9	1.8	(4.8)	(11.0)
Interest cover (x)	10.6	18.2	11.8	12.6	13.6
ROE (%)	12.5	15.3	14.4	14.7	14.5
Consensus net profit ()	-	-	56	64	68
UOBKH/Consensus (x)	-	-	1.00	0.99	0.99

Source: Civmec, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.705
Target Price	S\$1.23
Upside	+74.5%
(Previous TP)	S\$1.10)

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):	356.1
Market cap (US\$m):	264.7
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

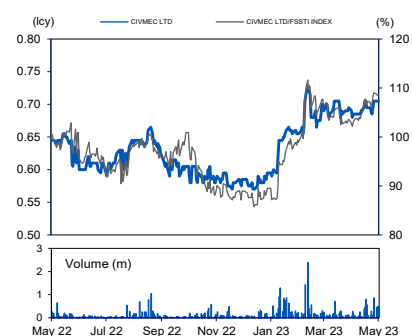
52-week high/low	S\$0.730/S\$0.570			
1mth	3mth	6mth	1yr	YTD
1.4	7.6	21.6	7.6	22.6

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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- **Laggard to oil & gas (O&G) related peers despite having superior financial metrics.** Civmec's ytd share price performance of +22% is lagging its Singapore-listed oil & gas related peers (+25-174%) despite Civmec having superior dividend yields and more attractive PE multiple (refer to next page for the peer comparison table).

STOCK IMPACT

- **Civmec successfully secured several notable contracts in 3QFY23.** These are: a) three contracts for Albermarle's Kemerton Lithium refinery trains 3 and 4, b) additional fabrication work for the Iron Bridge magnetite project, c) several contracts for the manufacture of dump-truck tray bodies on the east coast of Australia, and d) a time-critical contract to manufacture components for rebuilding a flood-damaged bridge.
- **To increase revenue generated through term contracts and maintenance services.** In line with this strategy, Civmec 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 Civmec 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 Civmec 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 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 12% higher target price of S\$1.23**, pegged to 11x FY24F PE (based on 1SD below five-year mean). We have rolled over our valuation base year to FY24 from FY23. We think Civmec's current valuation of 7x 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 barriers of entry for the defence business.

PEER COMPARISON OF CIVMEC VS SINGAPORE'S OIL & GAS RELATED PEERS – CIVMEC OFFERS HIGHER YIELD AND LOWER TRADES AT LOWER PE MULTIPLE

Company	Ticker	Price @ 23-May-23 (1cy)	Market Cap (US\$m)	PE			P/B 2023 (x)	EV/EBITDA 2023 (x)	ROE 2023 (%)	Yield 2023 (%)
				2022 (x)	2023 (x)	2024 (x)				
Civmec	CVL SP	0.705	265	7.8	7.1	6.4	1.0	4.2	14.4	5.1
Singapore Peers										
Marco Polo Marine	MPM SP	0.052	145	8.7	13.0	6.5	1.3	6.5	11.1	n.a.
Kim Heng	KHOM SP	0.105	55	10.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dyna-Mac	DMHL SP	0.305	235	24.0	16.9	13.3	n.a.	14.0	n.a.	1.6
Atlantic Nav	ATL SP	0.26	101	9.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average				13.0	15.0	9.9	1.3	10.2	11.1	1.6

Source: Bloomberg, UOB Kay Hian

LONG-TERM PE BAND



Source: Bloomberg, UOB Kay Hian

PUBLICLY AVAILABLE INFORMATION SUGGESTED ~\$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)	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	66.5	95.6	127.0
Other current assets	218.5	249.1	279.8	300.7
Total assets	725.7	780.9	839.6	891.0
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	407.4	444.9	481.7
Minority interest	(0.3)	(0.2)	(0.2)	(0.1)
Total liabilities & equity	725.7	780.9	839.6	891.0

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)	(20.2)	(25.3)	(30.3)
Dividend payments	(10.0)	(20.2)	(25.3)	(30.3)
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)	25.7	29.1	31.4
Beginning cash & cash equivalent	48.2	40.8	66.5	95.6
Changes due to forex impact	(0.0)	0.0	0.0	0.0
Ending cash & cash equivalent	40.8	66.5	95.6	127.0

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	7.5	7.7	7.8
ROE	15.3	14.4	14.7	14.5
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	15.4	14.3	13.3
Debt to equity	19.9	18.2	16.6	15.4
Net debt/(cash) to equity	8.9	1.8	(4.8)	(11.0)
Interest cover (x)	18.2	11.8	12.6	13.6

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