

CHINA
DEVELOPMENT
FINANCIAL

Civmec Limited

(CVL SP/CIVM.SI)

Strong fundamentals spearheading growth

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- **Earnings beat.** Civmec's FY2021 net profit (YE 30 June 2021) surged 97% YoY to A\$34.6mn, beating our estimates of A\$33.5mn.
- **China's iron ore appetite.** Even though iron ore prices have been on a downtrend recently as Chinese policymakers attempt to cut steel production, China's iron ore imports hit new highs in August, suggesting the country's continued reliance on the commodity.
- **Mid and long-term drivers.** Likelihood of increased contract wins as the Australian government ramps up on defence and infrastructure spending. Overall revenue supported by approximately 20% recurring income from maintenance and upgrading works. Buoyant commodity market to drive capex spending for miners.
- We maintain an **OUTPERFORM** recommendation and revise our TP to S\$0.90, based on an unchanged 12.0x FY2022F P/E.

Financials & Key Operating Statistics

YE June (A\$'000)	2020A	2021A	2022F	2023F	2024F
Revenue	391,868	674,186	727,355	784,731	823,537
PATMI	17,586	34,771	37,650	40,586	42,397
EPS (AUD Cents)	3.51	6.94	7.51	8.10	8.46
EPS growth (%)	189%	98%	8%	8%	4%
P/E (x)	19.4x	9.8x	9.1x	8.4x	8.0x
DPS (AUD Cents)	1.00	2.00	2.00	2.00	2.00
DPS (Sing Cents)	1.04	2.09	2.09	2.09	2.09
Div Yield (%)	1.5%	2.9%	2.9%	2.9%	2.9%
Net Margin (%)	4.5%	5.1%	5.2%	5.2%	5.1%
Net Gearing (%)	13.2%	4.1%	(2.3%)	(8.2%)	(13.4%)
Price P/B (x)	1.3x	1.2x	1.1x	1.0x	0.9x
ROE (%)	6.7%	11.9%	11.9%	11.9%	11.5%

Source: Company data, KGI Research

2021 financial update: Outstanding results. Civmec's revenue jumped by 72% YoY to A\$674.2mn for FY2021 (YE 30 June 21) while net profit surged by 97.3% to A\$34.6mn. Overall gross profit margin remained relatively flat at approximately 11%, whereas net profit margin increased from 4.5% to 5.1% YoY. Main revenue driver continues to be the Metal and Minerals sector which increased 66% YoY, making up 83% of total revenue for FY2021. Infrastructure sector's revenue rose by 94% mainly due to the contribution from the OPV project awarded by the Royal Australian Navy, whereas revenue for the Oil & Gas sector surged by 144%, amidst the rally in oil prices in 2021.

Resources sector remain strong. As of early September, the Bloomberg Commodity Index (BCOM Index) gained a total of approximately 34% YoY and is around 5% higher compared to its 5-year high. According to S&P Global, the near-term outlook for the mining industry remains strong as pent-up demand emerges post-pandemic. As vaccination campaigns ramp up, rebounding economic activity is driving demand for many commodities, buoyed by government stimulus efforts around the world. Whereas in the longer term, the sector

Maintain: Outperform

Price as of 7 Sep 21 (SGD)	0.68	Performance (Absolute)	
12M TP (\$)	0.89	1 Month (%)	-9.3
Previous TP (\$)	0.86	3 Month (%)	9.0
Upside (%)	31%	12 Month (%)	91.9
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	342		
Issued Shares (mn)	502		
Vol - 3M Daily avg (mn)	0.8		
Val - 3M Daily avg (\$mn)	0.6		
Free Float (%)	49.9%		
Major Shareholders		Previous Recommendations	
Fitzgerald Family	19.5%	11-Aug-21	0.76
Patrick John Tallon	19.4%		

will capitalize on raw material needs critical to the global energy transition efforts, driven by ESG minded companies.

Customer's capex spending to remain resilient. According to Civmec's largest customers, such as Rio Tinto and BHP, capex spending remains unchanged in the companies' latest financial results guidance. Capex spending for Rio Tinto is expected to be A\$7.5bn for both 2021 and 2022, whereas for BHP, capex spending is expected to be US\$7.3bn and US\$8.5bn for 2021 and 2020 respectively. Civmec's order book is currently at A\$1.0bn as of end-FY2021, and is expected to grow given the strong repeat business from long-term clients.

Port Hedland: A mighty base. Civmec has acquired 5 hectares of land in Port Hedland to establish a permanent operated facility to focus on construction and maintenance activities in Pilbara. The facility is currently in the design phase, with A\$10mn expected to be invested over 18 months. As the nature of mining sites require repair and maintenance approximately every 6 weeks, a firm foothold in the area would accelerate efficiency and minimise cross-border travelling for employees. Around A\$1bn worth of recurring revenue is expected through maintenance contracts for Pilbara.

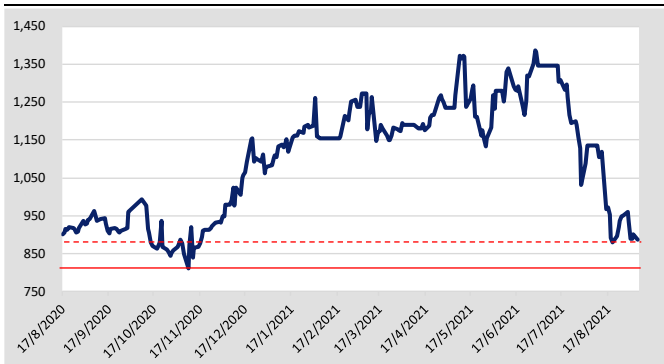
Valuation & Action: We maintain Civmec with an Outperform recommendation and a higher TP of S\$0.90. Our TP is based on 12.0x P/E to its FY2022F EPS of S\$0.74 (based on 0.99 SGD/AUD).

Risks: Further exacerbation of Australian-China tensions may result in trade sanctions on a wider array of Australian exports; Rising labour costs in Australia due to labour shortage may result in higher costs; Execution risks.

Iron ore prices. Iron ore prices have been declining since its all-time high in June 2021 of around US\$1,387 per tonne, mainly due to China’s crackdown of commodity prices and restrictions on steel production as means to curb carbon emissions. However, iron ore prices remain approximately 9.4% higher than the 52-week low of US\$810 per tonne. While Australian-China tensions continue to creep in, coupled with the recent slight contraction of China’s Manufacturing PMI from 50.4 in July 2021 to 50.1 in August 2021, overall sentiment suggests that China’s demand for raw materials might overall be weaker this year compared to last year.

Strong fundamentals outweigh short-term weak sentiment. Despite declining iron ore prices, the value of China’s iron ore imports hit new highs in August, worth a record US\$20bn, according to government data released Tuesday. Furthermore, the overall commodity market remains strong. Lithium, whose prices have soared 98.9% YTD has remained relatively resilient in the past month given that demand for electric vehicles is on the rise. Meanwhile, aluminium futures extended a recent rally to rise above US\$2,740 a tonne in September, the highest since May 2011, amidst growing demand boosted by massive global stimulus measures and climate change investment, shipping disruptions and tight supply disruptions and tight supply.

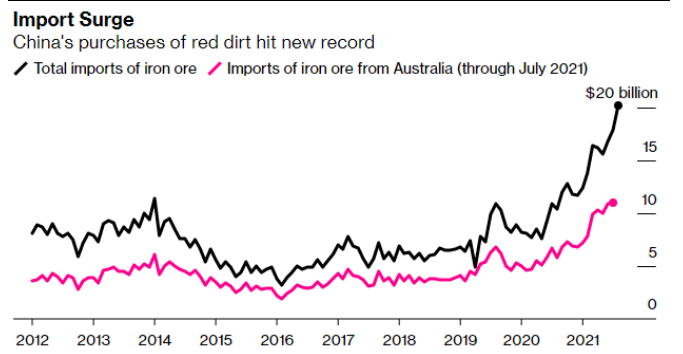
Figure 1: Generic 1st Iron Ore Prices (IOE1 Comdty)



Source: Bloomberg

Even though iron ore prices may be on a downtrend, overall buoyant commodity prices are expected to extend support to top line growth for Civmec’s customers and in turn, result in resilient capex spending which translates to revenue growth for Civmec.

Figure 2: China’s iron ore imports



Source: China’s General Administration of Customs

Valuations and peer comparison

Singapore peers. Civmec's closest peer comparison among Singapore-listed companies is AusGroup, a construction and integrated services company which services the oil and gas and mineral resource industries. As there is no forward P/E available for Ausgroup, we have used historical P/B as the next best indicator, of which Civmec is trading at 1.3x, compared to AusGroup's 1.8x. The key difference between Civmec and AusGroup is that the former provides services to both the private sector and government sector whereas the latter is focused only on the private sector, reinforcing Civmec as a relatively cheaper stock compared to Ausgroup given its diversification.

Australian peers. Large cap stock, Cimic, provides engineering-led construction, mining, services, and public private partnerships services. The company constructs various projects, including rail and road developments, social infrastructure projects, infrastructure projects, hospitals, airports, sewerage systems, and PPP projects. It has operations in Australia, Asia, Middle East, America, and Africa. Civmec is currently trading at 9.0x forward P/E, a 42.3% discount compared to its peer trading at 15.6x forward P/E. Taken into consideration that Cimic has a larger market cap and has operations in other countries besides Australia, we have used a lower 12.0x P/E for Civmec's 12M TP.

Among the small to mid-cap stocks, Civmec's closest peers among Australian-listed companies are GR Engineering Services and SRG Global. GR Engineering Services is an engineering, consulting, and contracting company that provides engineering design, procurement, and construction services to the mining and mineral processing industries in Australia and internationally. The company is currently trading at a 11.0x forward P/E and has a market cap of 208mn. SRG Global provides engineering-led specialist asset, construction, and mining services, supplying to customers in various sectors comprising oil and gas, energy, major infrastructure, offshore and mining. The company is currently trading at 11.9x forward P/E and has a market cap of 176mn. Our estimate of 12.0x P/E for Civmec's 12M TP is slightly more optimistic compared to the forward P/E average of 11.4x for both companies.

Summary: FY21 update. The average forward P/E of Australian engineering firms has declined slightly to 10.9x, compared to the previous average of 13.7x P/E upon initiation. The overall decline in P/E was mainly attributable to Imdex and Swick Mining Services, whereas the average P/E and price of other peers remain relatively stable. Amidst Australian-China tensions and China's deceleration of steel output which adversely impacted iron ore prices, we believe that negative sentiment is short-term and given Civmec's strong fundamentals and financials, backed by a solid order book and several government projects, justifies its long-term growth.

Figure 6: Peer comparison table

Bloomberg Ticker	Company Name	Last Price (Local \$)	Currency Adj. Market Cap (Local \$'mn)	Dividend Yield (%)		Net Gearing (%)	P/E (x)		P/B (x)	6M Average Daily Trading Volume (Local \$)	Price Performance (YTD)
				FY20	FY21F		12M	Forward			
CVL SP	CIVMEC LTD	SGD 0.68	254	1.6	3.7	22.8	19.5	9.0	1.3	352	67.9
Singapore Engineering Firms											
AUSG SP	AUSGROUP LTD	SGD 0.02	52	0.0	-	179.2	57.8	N/A	1.8	380	9.5
BOCJ SP	BOUSTEAD PROJECTS LTD	SGD 0.95	221	0.9	0.9	-58.9	2.2	39.6	0.7	448	33.1
Simple average: Singapore Engineering Firms							30.0	39.6	1.2		
Australian Engineering Firms											
CIM AU	CIMIC GROUP LTD	AUD 21.56	4,963	2.5	4.0	13.9	N/A	15.6	6.5	13,169	-11.5
DOW AU	DOWNER EDI LTD	AUD 6.49	3,355	3.8	4.1	45.1	25.7	16.2	1.6	14,485	21.8
IMD AU	IMDEX LTD	AUD 2.32	680	1.2	1.4	-3.3	29.0	23.9	3.6	2,235	34.5
NWH AU	NRW HOLDINGS LTD	AUD 1.82	612	5.5	5.8	31.4	14.5	8.5	1.5	7,096	-37.8
EHL AU	EMECO HOLDINGS LTD	AUD 1.13	453	1.2	3.6	42.2	29.1	7.9	1.1	2,023	-1.3
PRN AU	PERENTI GLOBAL LTD	AUD 0.86	446	8.2	5.7	38.6	N/A	8.8	0.5	5,512	-37.6
MAH AU	MACMAHON HOLDINGS LTD	AUD 0.23	359	0.0	3.1	23.9	6.1	8.3	0.9	584	-15.1
MLD AU	MACA LTD	AUD 0.83	208	6.6	6.7	46.5	10.3	5.7	0.7	1,348	-32.1
SRG AU	SRG GLOBAL LTD	AUD 0.54	176	3.0	4.3	4.0	19.8	11.9	1.1	343	28.9
GNG AU	GR ENGINEERING SERVICES LTD	AUD 1.75	208	4.7	7.5	-117.6	11.8	11.0	5.4	105	43.4
MRM AU	MMA OFFSHORE LTD	AUD 0.36	94	0.0	-	26.7	N/A	N/A	0.4	212	18.3
SXE AU	SOUTHERN CROSS ELECTRICAL	AUD 0.62	117	5.6	6.8	-25.0	10.7	10.1	0.9	141	7.9
SWK AU	SWICK MINING SERVICES LTD	AUD 0.25	51	7.1	6.9	12.7	17.3	5.7	0.8	80	19.5
DCG AU	DECMIL GROUP LTD	AUD 0.37	42	0.0	-	20.0	N/A	7.6	0.4	173	-40.3
Simple average: Australian Engineering Firms							17.4	10.9	1.8		

Source: Bloomberg

Financial Summary

YE 30 June

INCOME STATEMENT (A\$'000)	2020A	2021A	2022F	2023F	2024F
Revenue	391,868	674,186	727,355	784,731	823,537
Cost of sales	-347,217	-599,148	-646,399	-697,389	-731,876
Gross Profit	44,651	75,038	80,956	87,342	91,661
Admin and other expenses	-21,485	-20,835	-22,478	-24,251	-25,451
Finance income/(expenses)	-2,323	-6,481	-6,899	-7,492	-8,146
Other income	1,722	2,572	2,775	2,994	3,142
Shares in profit/(loss) of JV	201	-97	0	0	0
Profit before Tax	22,766	50,197	54,353	58,592	61,206
Income tax	-5,217	-15,569	-16,858	-18,173	-18,984
Non-controlling interests	-37	-143	-155	-167	-174
PATMI	17,586	34,771	37,650	40,586	42,397

BALANCE SHEET (A\$'000)	2020A	2021A	2022F	2023F	2024F
Cash and cash equivalents	27,712	48,172	73,353	100,625	129,453
Trade and other receivables	74,523	87,488	87,488	87,488	87,488
Contract assets	95,118	82,642	82,642	82,642	82,642
Other current assets	2,051	1,903	1,903	1,903	1,903
Current Assets	199,404	220,205	245,386	272,658	301,486
Property, plant and equipment	397,804	412,030	417,167	422,709	428,525
Intangibles	10	10	10	10	10
Other non-current assets	2,650	4,694	4,637	4,637	4,637
Trade and other receivables	493	0	0	0	0
Non-current Assets	400,957	416,734	421,814	427,356	433,172
Total assets	600,361	636,939	667,200	700,014	734,658
Trade and other payables	91,075	87,413	87,413	87,413	87,413
Contract liabilities	83,266	80,138	80,138	80,138	80,138
Borrowings (current)	2,387	0	0	0	0
Other current liabilities	19,687	34,313	34,313	34,313	34,313
Current Liabilities	196,415	201,864	201,864	201,864	201,864
Borrowings (non-current)	60,000	60,000	66,000	72,600	79,860
Other non-current liabilities	80,873	83,207	83,207	83,207	83,207
Non-current liabilities	140,873	143,207	149,207	155,807	163,067
Shareholders equity	263,188	292,126	316,599	342,980	370,538
Non-controlling interests	-115	-258	-470	-637	-811
Total Equity	263,073	291,868	316,129	342,343	369,727
Total Liabilities and Equity	600,361	636,939	667,200	700,014	734,658

CASH FLOW STATEMENT (A\$'000)	2020A	2021A	2022F	2023F	2024F
Net income before tax	22,766	50,197	54,353	58,592	61,206
Depreciation & Amortisation	10,464	14,174	18,184	19,618	20,588
Other non-cash adjustments	9,243	9,007	6,899	7,492	8,146
Operating CF before WC changes	42,473	73,378	79,436	85,703	89,941
CF from operating activities	95,201	58,263	55,679	60,038	62,811
Purchase/Disposal of PPE	-70,039	-21,616	-23,321	-25,160	-26,405
Other CFI	-245	1,213	0	0	0
CF from investing activities	-70,284	-20,403	-23,321	-25,160	-26,405
Dividends Paid	-3,729	-10,021	-13,178	-14,205	-14,839
Debt Raised / (Repaid)	-28,135	-334	6,000	6,600	7,260
Repayment of lease liabilities	-6,003	-7,045	0	0	0
CF from financing activities	-37,867	-17,400	-7,178	-7,605	-7,579
Net increase in cash & cash equiv.	-12,950	20,460	25,181	27,272	28,828
Beginning Cash	40,662	27,712	48,172	73,353	100,625
Ending Cash	27,712	48,172	73,353	100,625	129,453

KEY RATIOS	2020A	2021A	2022F	2023F	2024F
Profitability					
EPS (AUD Cents)	3.51	6.94	7.51	8.10	8.46
EPS Growth (%)	189.5%	97.7%	8.3%	7.8%	4.5%
DPS (AUD Cents)	1.00	2.00	2.00	2.00	2.00
DPS (Sing Cents)	1.04	2.09	2.09	2.09	2.09
Dividend Yield (%)	1.5%	2.9%	2.9%	2.9%	2.9%
Profitability (%)					
Gross margin	11.4%	11.1%	11.1%	11.1%	11.1%
Net margin	4.5%	5.1%	5.2%	5.2%	5.1%
ROE	6.7%	11.9%	11.9%	11.9%	11.5%
Growth (% Y-o-Y)					
Revenue	-19.8%	72.0%	7.9%	7.9%	4.9%
Net Profit	149.6%	97.3%	8.3%	7.8%	4.5%
Financial Structure					
Interest Coverage (x)	9.9	8.7	8.6	8.5	8.1
Net Gearing (%)	13.2%	4.1%	-2.3%	-8.2%	-13.4%

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	Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
	Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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	Not Rated (NR)	The stock is not rated by KGI Securities.
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