KGI CHINA DEVELOPMENT FINANCIAL

Civmec Limited

(CVL SP/CIVM.SI)

Well prepared for the ongoing commodity supercycle

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- Civmec is an integrated, multi-disciplinary construction and engineering service provider to the Oil & Gas, Metals & Minerals and Defence & Infrastructure sectors. The group provides services in Australia and its manufacturing facilities are located in Western Australia and New South Wales.
- We initiate with an **OUTPERFORM** recommendation and TP of S$0.86, based on 12x FY2022F P/E.
- **Short and mid-term catalysts**. Favourable industry supply and demand dynamics driven by China's appetite for iron ore.
- **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.

Financials & Key Operating Statistics

YE June (A$'000)	2019A	2020A	2021F	2022F	2023F
Revenue	488,511	391,868	648,933	700,221	755,574
PATMI	6,075	17,586	33,536	36,108	39,000
EPS (AUD Cents)	1.21	3.51	6.69	7.21	7.78
EPS growth (%)	-77%	189%	91%	8%	8%
P/E (x)	62.3x	21.5x	11.3x	10.5x	9.7x
DPS (AUD Cents)	0.70	1.04	1.04	1.04	1.04
DPS (Sing Cents)	0.70	1.09	1.09	1.09	1.09
Div Yield (%)	0.9%	1.4%	1.4%	1.4%	1.4%
Net Margin (%)	1.4%	4.5%	5.0%	5.0%	5.0%
Net Gearing (%)	32.9%	13.2%	14.5%	16.9%	18.0%
Price P/B (x)	2.2x	1.4x	1.3x	1.2x	1.1x
ROE (%)	3.5%	6.7%	11.8%	11.7%	11.6%

Source: Company data, KGI Research

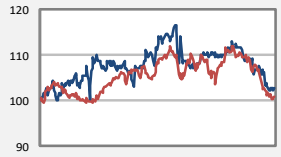
Company overview. Civmec is a dual-listed Singapore-Australia public company that was listed on SGX in 2012 and ASX in 2018. The group provides a wide array of vertically integrated services, such as fabrication projects, modularization, shipbuilding, site civil works, piping, electrical instrumentation, industrial insulation and maintenance to end customers in the Oil & Gas, Metals & Minerals and Defence & Infrastructure sectors.

2020 financial review: bottom line remained strong. While Civmec's revenue decreased by 20% YoY to A$391.9mn in 2020, gross profit rose by 75% to A$44.7mn. This was mainly due to better margins of 11% in 2020, compared to the 5% in 2019, as the company recovered from cost instability due to Covid-19. With strong support from gross profit and decrease in finance costs, net profit surged around 1.5x YoY to A$17.5mn in 2020. Order book value remained resilient at A$900mn in 2020 despite the pandemic, a 10% rise from 2019.

9M21 performance is exceeding expectations. Civmec continued to deliver strong results in 3Q21. For the nine months in 2021, top and bottom line have already exceeded full year 2020 results. 9M2021 revenue, gross profit and net profit have increased by 25%, 20% and 37% respectively, as compared to full year 2020 figures. Similar to FY20, the group's main revenue stream is dominated by the resources industry, making up around 83% of total sales. Robust performance was attributable to the 3 new contract wins in 1H21, bringing order book to a total value of approximately A$1.15bn as of end January 2021.

Initiation - Outperform

Price as of 11 Aug 21 (SGD)	0.76	**Performance (Absolute)**	
12M TP ($)	0.86	1 Month (%)	7.1
Previous TP ($)	-	3 Month (%)	42.5
Upside (%)	14%	12 Month (%)	113.0
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	378		
Issued Shares (mn)	501		
Vol - 3M Daily avg (mn)	0.7		
Val - 3M Daily avg ($mn)	0.5		
Free Float (%)	49.8%		
Major Shareholders		**Previous Recommendations**	
Fitzgerald Family	19.5%		
Patrick John Tallon	19.5%		



Increase in defence spending. The Australian government's upcoming defence budget is estimated to reach a massive A$270bn over the next decade as military focus is set on the Indo-Pacific region. Naval expenditure on Offshore Petrol Vessels, which commenced in 2017-2018 is expected to grow, likely creating more new wins for Civmec given its current working relationship with the Royal Australian Navy.

Domino effect from the boom in the resources industry. China's demand for iron ore has driven up iron ore prices to a record high in May 2021. Lithium prices have also increased, trading near a 3-year high as electric vehicles have grown to be increasingly popular. Oil prices have also done particularly well in 2021, a complete turnaround from negative prices in April 2020. As Civmec's customers mainly belong to the Metals & Minerals industry, tight supply and increased demand would create more opportunities for mining and exploration projects, in turn benefitting Civmec as a solutions provider.

Valuation & Action: We initiate Civmec with an Outperform recommendation and a TP of S$0.86. Our TP is based on 12x P/E to its FY2022F EPS of S$0.72 (based on 0.9984 SGD/AUD).

Risks: Further exacerbation of China-Australian 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.

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Investment thesis

Increase in exploration projects to benefit Civmec as metals and minerals gain traction

As a solutions provider for the metals and resources sector, Civmec will benefit from the industry boom

Boom in the mining industry. The mining industry has been gaining attention over the past months, especially in metals and minerals such as steel, iron ore and lithium. The recent growth in the electric vehicle industry has led to an increase in demand for lithium, the main component of batteries used to power these vehicles. Iron ore, the raw material for steel, is resiliently in demand from China despite the ongoing trade tensions, as the country continues its path of industrializing and urbanizing. Over 2020, China bought 81% of Australia's iron ore exports and in the first 5 months of 2021, snapped up 444.9mn tonnes.





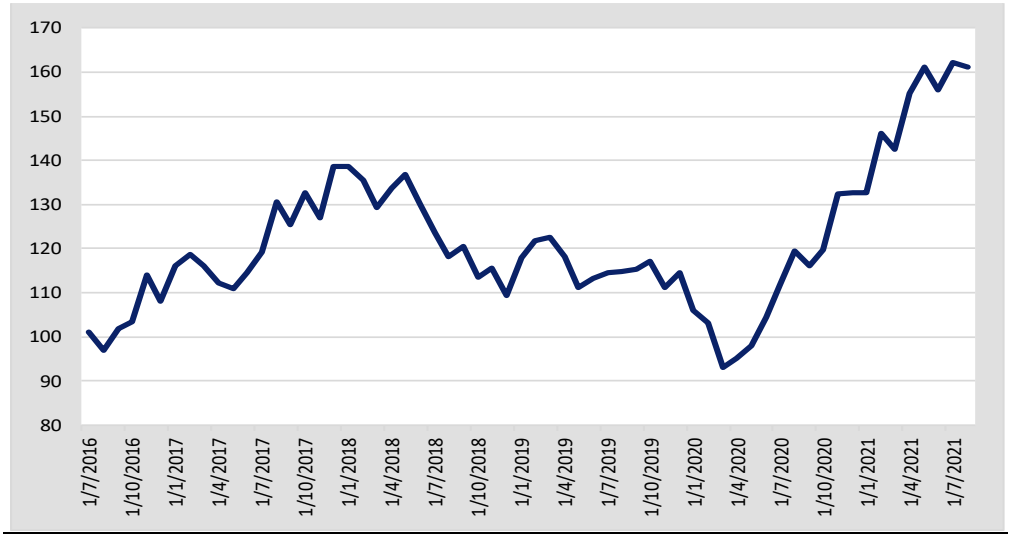

Overarching view: Industrial metals index. The BCOMIN Index, which consists of industrial metals, started to lose momentum in February 2018 and was on a downtrend, bottoming to a 5-year low of US$93 in March 2020 as Covid-19 hit worldwide. However, metal prices started to gain traction as economies began to recover with the containment of the virus, gradual reopening and ramping up on vaccination programmes from April 2020 onwards. Prices started to rally and reached a 5-year high in July 2021 at US$162.

China's huge demand for iron ore resulted in a price rally for iron ore this year, with record high price reached in May. Prices have dipped since then as China has tried to cool the rally in commodity prices.

Iron ore: the new gold. Iron ore prices have rallied over the past year and reached a record high of approximately US$230 in mid-May, supported by strong demand. Despite the dip in iron ore prices in late May due to the sell down of commodities by China, natural market forces reacted quickly and prices adjusted back, solidifying the resilience of iron ore prices. The next price correction occurred in mid-July after China announced that it would be embarking on a campaign to cut steel output to meet environmental and other policy goals, resulting in iron ore prices falling to a 3-month low as of 12 August. Despite the price correction, iron ore prices are still around 42% higher than the 52-week low of US$118. Civmec currently has several iron ore projects, such as Mesa A Wet Plant for Rio Tinto which is Following the delivery of a successful iron ore project at Pilbara, long-term client and key iron ore producer, Fortescue, newly awarded the company with the Iron Bridge Magnetite Project which will commence from July 2020 to early 2022.

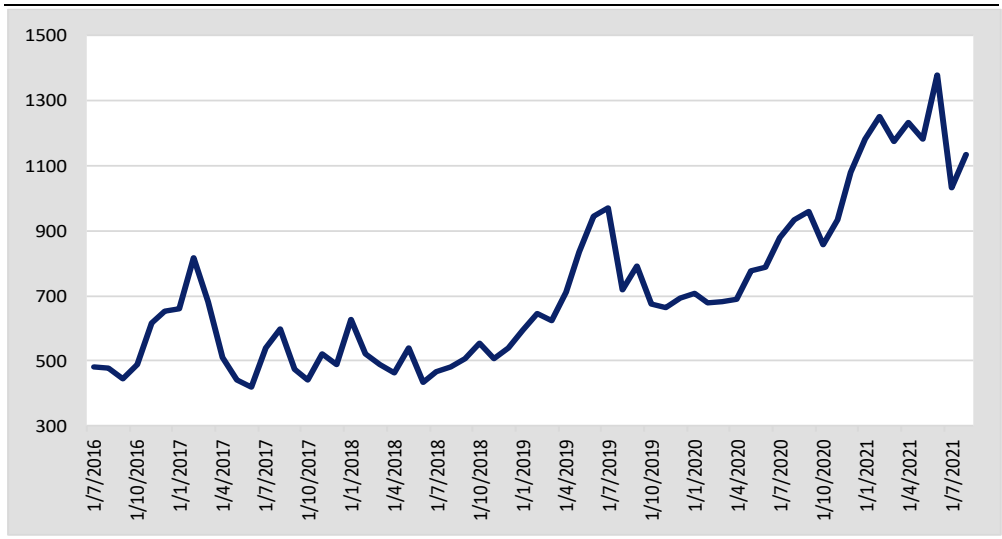
Minor setback. Heightened China-Australian tensions over the past year have resulted in China restricting Australian coal exports. Iron ore prices have also been declining since mid-July as China implemented policies to restrict steel output on efforts to reduce emissions, in line with the country's 14th Five-Year Plan (2021-2025). There is growing concern that the trade spat will spill-over to Australian iron ore exports as China aims for self-sustenance. However, in the short-term, China is expected to still be highly reliant on Australia's iron ore due to scale and cost.

Figure 1: BCOMIN Index (Industrial Metals Index)



Source: Bloomberg

Figure 2: Iron ore prices



Source: Bloomberg

Government ramping up on Australia's defence and infrastructure

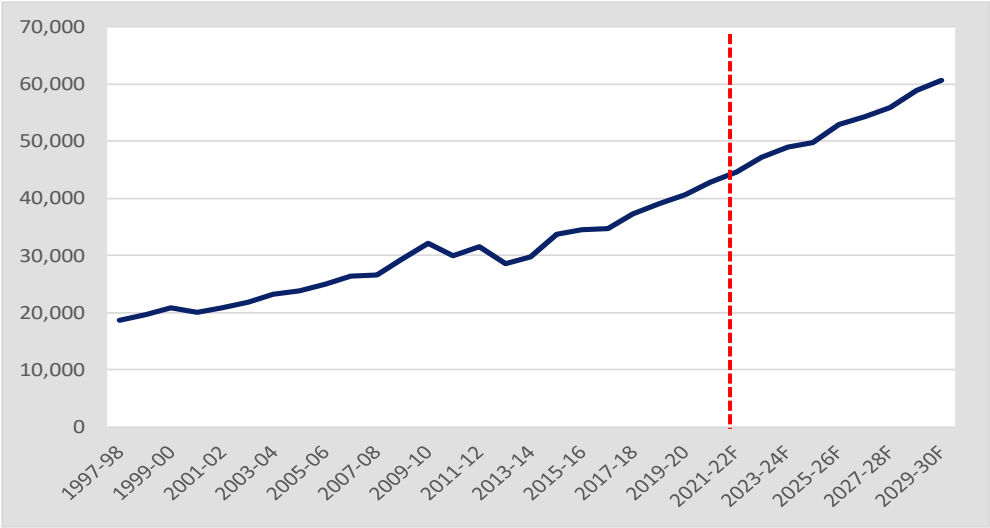
Defence. Civmec has an ongoing project with the Royal Australian Navy which commenced in January 2021 and is expected to be completed by 2029. This project is mainly for the assembly of offshore petrol vessels (OPV). The company is engaged for the supply and processing of steel for 12 OPVs, cutting steel plates for 2 vessels for assembly in South Australia, and undertaking fabrication and consolidation for the other 10 vessels at Henderson.

Civmec will likely generate recurring revenue from upgrading and maintenance work on the OPV projects.

Potential recurring revenue from upgrading and maintenance. We believe Civmec's successful delivery of the OPV project will help the group secure the government as a long-term client. In addition to contract wins, OPV revenue will also be supported from recurring maintenance income as well as any additional income from modification or upgrading of the vessels. Civmec has shown a good track record of consistently being awarded new projects from their long-term clients such as Rio Tinto, Alcoa and Chevron, which validates the quality of work and positive relationship with their customers, and this might be replicated with the Royal Australian Navy.

Increase in defence spending. The Australian government has historically been increasing their defence spending. The upcoming budget is estimated to reach a massive A$270bn over the next decade. Actual defence spending has increased at an average rate of 3.8% annually from 1998 to 2021, whereas budgeted defence spending is expected to increase by an average rate of 4.0% annually from 2021 to 2030. The Prime Minister of Australia, Morrison, has highlighted that Australia will pivot its military focus to the Indo-Pacific region as the country intends to be more assertive in its dealings with Beijing and less reliant on the United States, following tensions originating from Australia's independent inquiry into the origins of the coronavirus pandemic, cyber-attacks and the most recent trade spat.

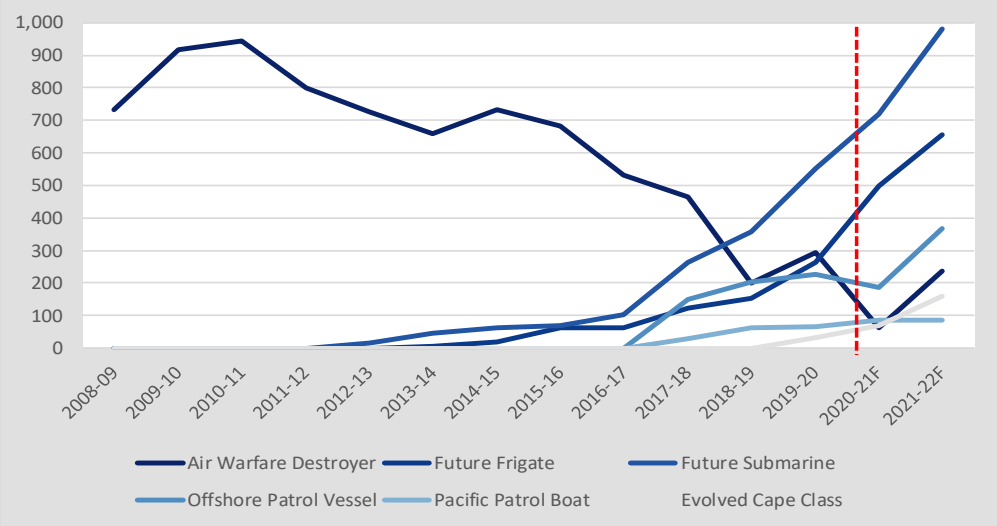
Figure 3: Australian defence spending and budget to 2030 (A$'mn)



Source: Australian Strategic Policy Institute Defence Budget Brief

Naval expenditure on OPVs kickstarted in 2017-2018 and has been growing at an average annual rate of 4.0% from 2018 to 2020, whereas future budgeted spending for OPVs is expected to increase at an average rate of 39% annually from 2020 onwards. On a continuing basis, we would expect more contract wins for Civmec given that they have already built ties with the government.

Figure 4: Naval shipbuilding historical and forecasted expenditure to 2022 (A$'mn)



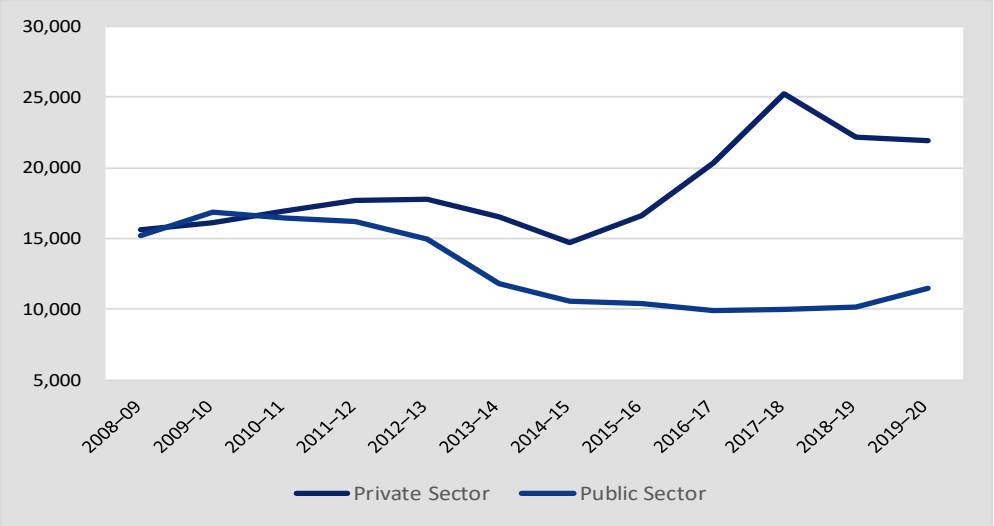
Source: Australian Strategic Policy Institute Defence Budget Brief

Infrastructure. The Australian government launched its 10-year infrastructure investment program in January 2021, whereby A$110bn would be invested in transport infrastructure across Australia as a means to reduce congestion, better connect regions, improve road safety and meet national freight challenges. Through the 2021-22 Budget, the Government has allocated A$15.2bn for new infrastructure projects and an additional A$1bn each to the Local Roads and Community Infrastructure Program as well as Road Safety Program, bringing total commitment to A$2.5bn and A$4bn respectively. Key projects include A$2bn for Melbourne Intermodal Terminal and A$2bn for Great Western Highway in New South Wales.

Civmec currently has an ongoing infrastructure project in Western Australia - the construction of Perth Kids Bridge, a 217 metre architecturally designed pedestrian bridge over Winthrop Avenue to Kings Park in Nedlands, which expected to be completed by end 2021.

Comparing the value of infrastructure work done by the private sector for the public sector against the public sector itself, there is a widening gap from 2014-2015 onwards, indicating that the private sector has contributed a larger share of infrastructure work. Even though there was a slight dip after 2017-2018, we expect a rather resilient budget from the Australian government, especially since there are plans to ramp up on infrastructure.

Figure 5: Value of major infrastructure engineering construction work done - Private sector for the public sector VS Public sector (A$'mn)



Source: Australian Government Department of Infrastructure

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. Civmec's market cap is approximately 5x of AusGroup, and was profitable in FY20 as compared to AusGroup which remains loss-making. As there is no P/E available for comparison, we used P/B as the next best indicator, of which Civmec's P/B of 1.5x is trading at around 20% discount to AusGroup's 1.9x. 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.

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 11.4x forward P/E, a 33.3% discount compared to its peer trading at 15.2x forward P/E. Taken into consideration that Cimic has a larger market cap and has operations in other countries besides Australia, we have used 12.0x P/E for our 12M TP, representing approximately 26.7% discount to Cimic's forward P/E.

Based on our estimate of 12.0x P/E for 2022 EPS, Civmec is trading at a 36% and 12% discount to closet Australian peers SRG Global and GR Engineering Services respectively.

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 13.4x forward P/E and has a market cap of 181mn. SRG Global provides engineering-led specialist asset, construction, and mining services. The Asset Services segment supplies integrated services to customers in various sectors comprising oil and gas, energy, major infrastructure, offshore, mining, power generation, water treatment plants, commissioning, decommissioning, shutdowns, and civil works. The Mining Services segment provides ground solutions, which include production drilling, ground and slope stabilization, design engineering, and monitoring services to mining clients. The company is currently trading at 16.4x forward P/E and has a market cap of 177mn. Our estimate of 12.0x P/E for Civmec's 12M TP is slightly more conservative compared to its peers in the small to mid-cap arena.

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	Historical		
CVL SP	CIVMEC LTD	SGD 0.76	279	2.7	2.6	33.7	23.2	11.4	1.5	290	86.4
	Singapore Engineering Firms										
AUSG SP	AUSGROUP LTD	SGD 0.03	56	0.0	-	195.6	N/A	N/A	1.9	492	19.0
BOCJ SP	BOUSTEAD PROJECTS LTD	SGD 1.03	238	0.9	0.9	-58.9	2.4	42.9	0.8	433	44.3
	Australian Engineering Firms										
CIM AU	CIMIC GROUP LTD	AUD 21.01	4,789	2.5	4.3	13.9	N/A	15.2	6.2	15,370	-13.8
DOW AU	DOWNER EDI LTD	AUD 5.81	2,979	-	4.3	84.9	22.6	14.5	1.5	14,679	8.9
IMD AU	IMDEX LTD	AUD 2.22	657	1.5	1.1	4.2	51.3	34.2	3.7	1,941	28.7
NWH AU	NRW HOLDINGS LTD	AUD 1.74	585	2.4	4.1	29.6	10.7	10.6	1.5	7,787	-40.6
EHL AU	EMECO HOLDINGS LTD	AUD 1.24	497	0.0	0.9	118.1	9.6	11.0	1.4	1,925	8.3
PRN AU	PERENTI GLOBAL LTD	AUD 0.93	483	6.1	6.2	39.7	N/A	8.5	0.5	5,919	-32.1
MAH AU	MACMAHON HOLDINGS LTD	AUD 0.22	349	0.0	3.2	12.2	5.7	8.1	0.9	652	-17.0
MLD AU	MACA LTD	AUD 0.90	223	5.8	5.6	23.7	44.5	7.1	0.8	1,366	-25.9
SRG AU	SRG GLOBAL LTD	AUD 0.54	177	2.4	3.5	13.8	N/A	16.4	1.1	314	30.1
GNG AU	GR ENGINEERING SERVICES LTD	AUD 1.53	181	8.3	6.6	-86.7	18.9	13.4	6.7	84	25.4
MRM AU	MMA OFFSHORE LTD	AUD 0.37	98	0.0	-	85.8	N/A	N/A	4.6	236	23.3
SXE AU	SOUTHERN CROSS ELECTRICAL	AUD 0.53	96	6.8	5.7	-31.1	13.2	9.7	0.8	165	-7.9
SWK AU	SWICK MINING SERVICES LTD	AUD 0.23	47	4.8	6.7	21.6	N/A	16.1	0.7	82	9.8
DCG AU	DECMIL GROUP LTD	AUD 0.37	40	0.0	-	1.8	N/A	N/A	0.3	177	-40.3

Source: Bloomberg

Forecasts

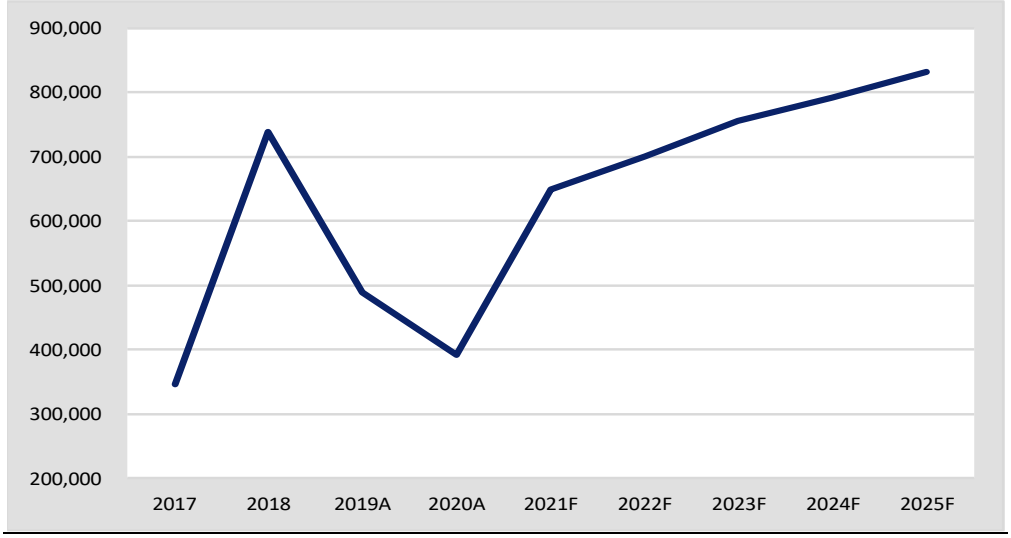
Revenue. We have used forecasted Capex growth for the mining industry as our revenue driver. According to Cummins, annual Capex of the world's top 40 mining companies is around US$78bn, which is about the same as the annual GDP of a medium-sized country. Many economists agree that the world's GDP will bounce back in 2021 by between 4% to 6% increase, then continue to stay positive in the following years. This means more production and an increased need for minerals and metals.

As majority of the company's revenue is from the Metals & Minerals sector, contributing around 80% of total sales, we have forecasted 8% growth for 2022 and 2023, given the positive outlook on the industry. We also forecast an 8% growth for the infrastructure industry for 2022 and 2023 as we expect more contract wins and recurring income from the Australian Navy. A slightly lower 6% growth is forecasted for the Oil & Gas sector as revenue contribution is only about 10% and the industry is rather mature and saturated.

Debt. We have forecasted borrowings to increase by 10% in 2022 and 5% thereafter as increase in projects would likely result in more loans taken to fund Capex and working capital. Our forecast is capped such that amounts do not exceed historical borrowings.

Summary. Our forecast expects steady top and bottom-line growth in the short and mid-term until 2023, which slightly plateaus off from 2024 onwards with the possibility that China could stabilize its supply of iron ore through its self-sustenance policy resulting in lower Australian iron ore imports. Regardless, we do not expect iron ore exports to significantly drop. Furthermore, Civmec's revenue will likely improve due to diversification and would be backed by defence and infrastructure projects, coupled with recurring income.

Figure 7: Revenue (Historical and forecast)



Source: Company reports, KGI Research

Industry Outlook

Australia: A land full of metals and minerals

Mining has long been a cornerstone of the Australian economy with Western Australia and Queensland being the most resource-rich states. Australia is among the top five producers of most of the world's key mineral commodities, including the recent metal buzz: Iron Ore and Lithium. Australia's exports have been on an uptrend and reached its peak in May 2021, largely supported by iron ore which is Australia's top export. According to Australia's Resources and Energy Quarterly Office, the Chief Economist stated that iron ore earnings are on track for a record high of A$136bn in 2021, after topping the A$100bn mark for the first time in 2020. The Quarterly expects Australia's iron ore export volumes to grow from around 900mn tonnes in fiscal 2021 to 1.1bn tonnes by fiscal 2026, as several mines open or expand in Western Australia.

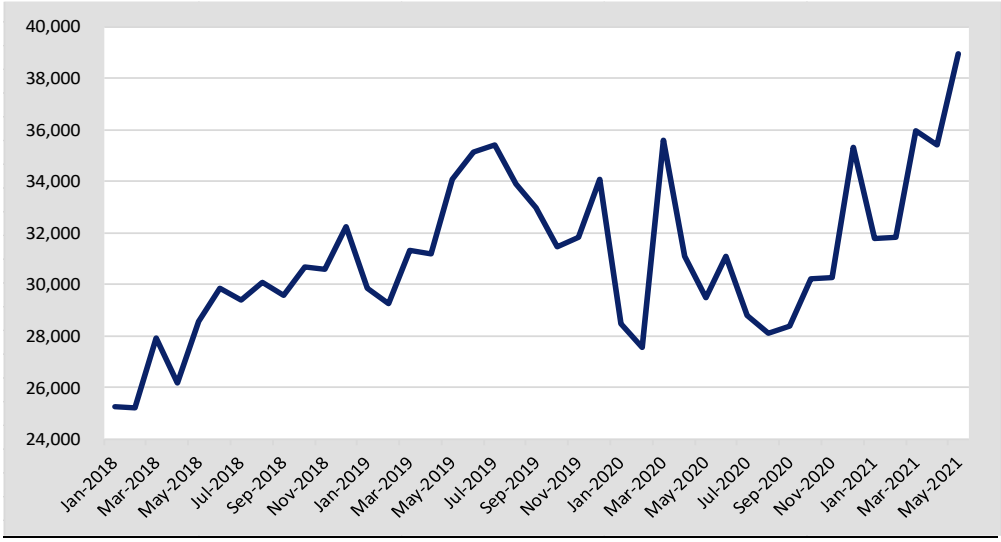
Iron ore prices have rallied over the past year and reached a record high of US$232 in mid-May supported by strong demand. Despite the dip in iron ore prices in late May to June due to the sell down of commodities by China, natural market forces reacted quickly and prices adjusted back, solidifying the resilience of iron ore prices. Following the delivery of a successful iron ore project at Pilbara, Civmec's long-term clients and key iron ore producer, Fortescue, awarded the company with the Iron Bridge Magnetite Project which would commence from July 2020 to early 2022.

China: Geopolitical friction

China-Australian tensions have been creeping over the past year, as Prime Minister Scott Morrison's government called for independent investigators to enter Wuhan, where the coronavirus began. However, China's appetite for Australian iron ore remains insatiable despite more than a year of strained diplomatic relations, with the value of merchandise exports from Australia soaring to a fresh peak of A$39.2bn in May. Shipments to China spiked to A$16.5bn, topping the previous record of sales to China by 15%.

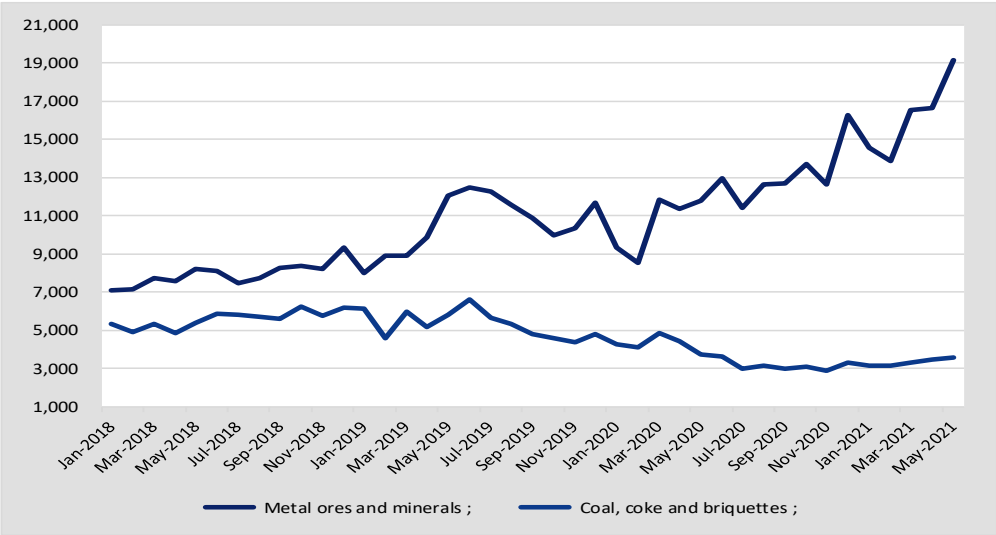
Moving forward, geopolitical and trade tensions might impact Australia's exports if China continues imposing trade sanctions and clamping down on commodities prices. Currently, China has imposed trade sanctions on certain Australian livestocks and coal, while concurrently accelerating its self-sustaining policy on iron ore. In order accomplish its Five-Year Plan 2021-25, the China Iron and Steel Association (CISA) will take a series of measures to ensure iron ore supply, including increasing self-supply rate of iron ore, and enlarging the number of Chinese companies invested overseas iron ore mines in West Africa and West Australia. In the short-term, we do not expect a significant drop in Australian iron ore exports to China, as time and money would be consumed in order to achieve the country's self-sustaining policy. In the medium and long-term however, exports may plateau off if China is successful and Australia is not able to gain greater market share in other regions.

Figure **8**: Value of Australian exports - Original, current prices (A$'mn)



Source: Australian Bureau of Statistics

Figure 9: Value of Australian exports - Original, current prices; Metals and minerals (A$'mn)



Source: Australian Bureau of Statistics

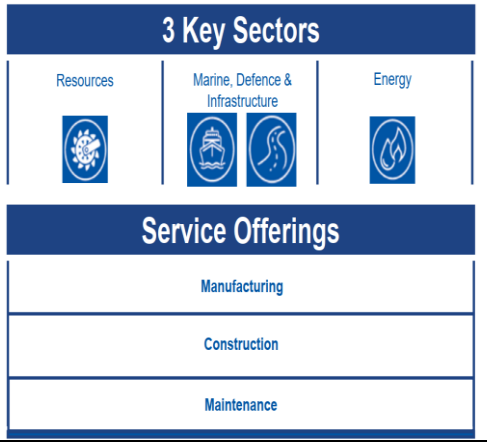
Company Background

A snapshot of projects and clients: Big names in the industry

Civmec provides heavy engineering and construction services to 3 main industries with the following contributions to revenue: Metals & Minerals (~80%), Defence & Infrastructure (~10%), Oil & Gas (~5%). With increased contract wins over the years, Civmec has seen consistent order book growth, reaching an outstanding A$1.15bn as at end 1H2021.

Figure 10: Snapshot of company's projects and key sectors

PROJECT	CLIENT	LOCATION
Gorgon Subsea	Technip Oceania	Henderson, WA
Hay Point Wharf and Shiploader	McConnell Dowell, BHP Mitsubishi Alliance (BMA)	Henderson, WA
Roy Hill De-Bottlenecking Project	Roy Hill	Pilbara, WA
Dump truck tray bodies	Various resource clients	Newcastle, NSW
Woodside 5 Year Service Agreement	Woodside Energy	Henderson, WA
Mesa A Wet Plant	Rio Tinto	Pilbara, WA Henderson, WA
Albemarle Lithium	Albemarle	South-West, WA Henderson, WA
Iron Bridge Magnetite Mine	Iron Bridge JV (IBJV)	Pilbara WA Henderson WA Newcastle NSW
Perth Kids' Bridge	Main Roads WA	Perth, WA
SEA 1180 Offshore Patrol Vessel Program	Luerssen Australia	Henderson, WA
Scheduled Maintenance and Shutdowns	Roy Hill, FMG, Alcoa, Rio Tinto, Chevron, QAL	Across Australia



Source: Company reports, KGI Research

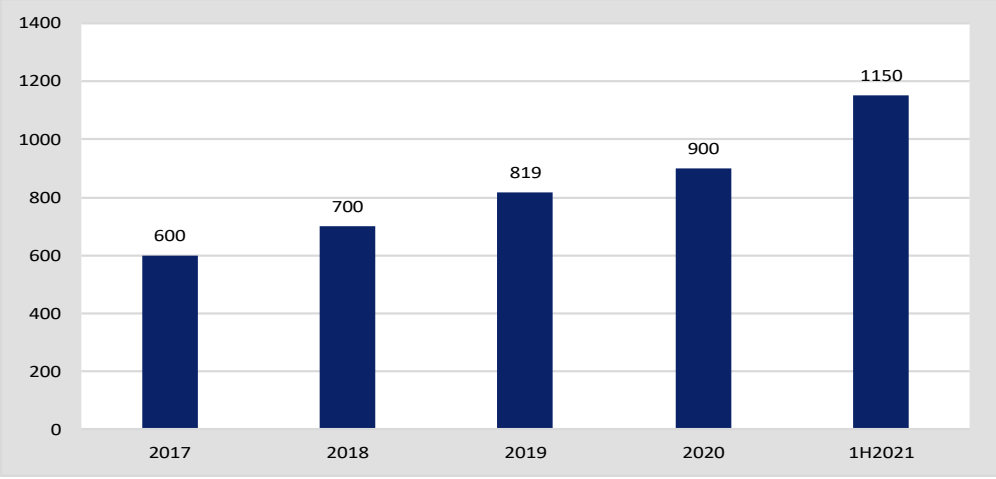
Minimal risk from customers who have steady financials and cash flows. Civmec's key customers include big names such as Rio Tinto, BHP, Chevron, Fortescue Metals and State-owned Royal Australian Navy. BHP is the largest mining company in the world, followed by Rio Tinto. As a proxy for Civmec's customer portfolio, we have evaluated the net total asset position and free cash flows for the 3 listed companies, Rio Tinto, BHP and Chevron. All companies reported positive free cash flows and a healthy liability/asset ratio ranging from 44.65% to 50.14%.

Figure 11: Financials of key customers

	BHP (US$'bn)			Rio Tinto (US$'bn)			Chevron Corp (US$'bn)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Total assets	152.19	143.73	151.58	71.25	66.28	71.41	239.79	237.43	253.86
Total liabilities	76.31	69.88	69.46	33.22	32.07	32.23	107.06	92.22	98.22
Net total assets	75.88	73.85	82.12	38.03	34.21	39.18	132.73	145.21	155.64
Total liabilities/Total assets	50.14%	48.62%	45.82%	46.62%	48.39%	45.13%	44.65%	38.84%	38.69%
Free cash flow	13.14	16.25	17.4	8.09	7.68	5.11	1.66	13.55	16.89

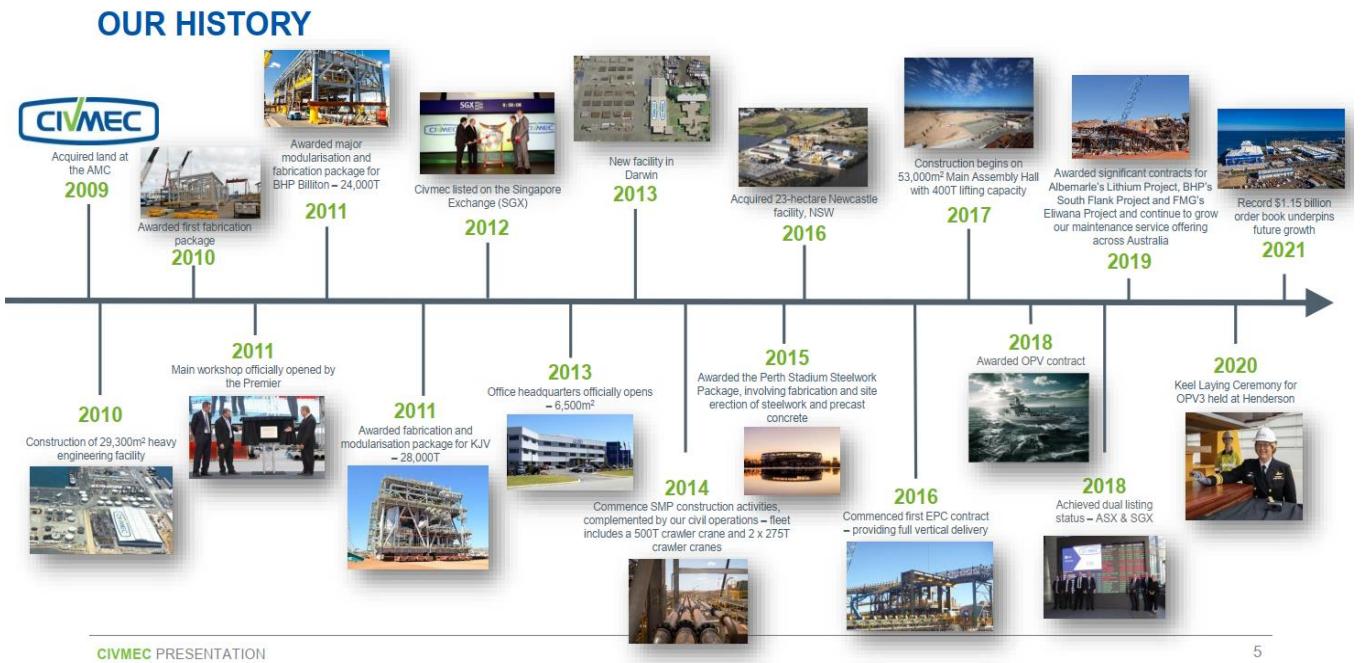
Source: Company reports, KGI Research

Figure 12: Civmec's Order book growth



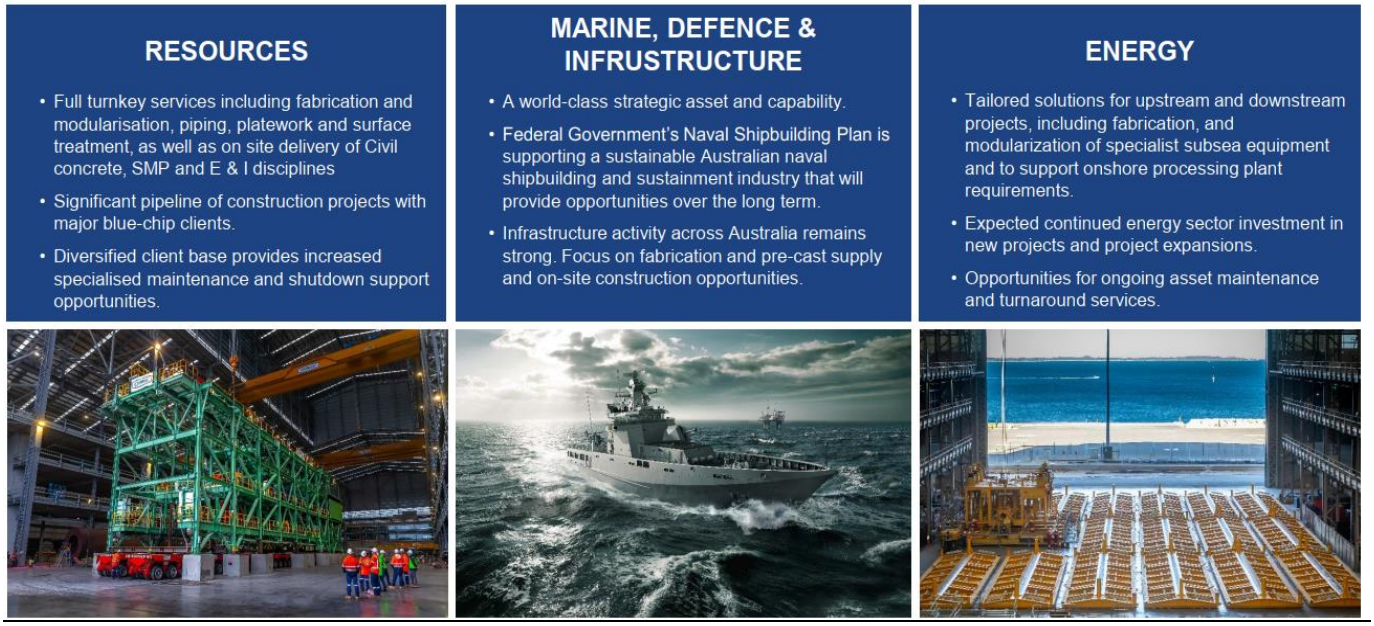
Source: Company reports, KGI Research

Figure 13: Snapshot of Civmec's history



Source: Company reports, KGI Research

Figure 14: Snapshot of operating industries



Source: Company reports, KGI Research

Management

	MR JAMES FINBARR FITZGERALD EXECUTIVE CHAIRMAN	Mr James Finbarr Fitzgerald was appointed to the Board on 27 March 2012. He is responsible for providing leadership to the Board and guidance on the Group's corporate direction, facilitating the effective contribution of the Directors and ensuring procedures are in place to comply with the Group's guidelines on corporate governance. With more than 35 years' experience, Mr Fitzgerald has a wealth of experience, with a natural ability to create solutions for complex tasks. He has a strong belief in the training and development of people which has been a key aspect of the Group's growth and success.
	MR PATRICK JOHN TALLON CHIEF EXECUTIVE OFFICER	Mr Patrick John Tallon was appointed to the Board on 27 March 2012. He is responsible for implementing the strategic decisions and policies of the Company, with a strong focus on safety culture, team building, leadership and the Group's financial performance. Over the past 30 years, Mr Tallon has developed his knowledge in the Oil & Gas, Metals & Minerals, Infrastructure & Defence sectors, building an understanding of key stakeholder requirements at all levels. He is a key driver in company innovation, productivity improvement, and the waste elimination programs within the business.
	MR KEVIN JAMES DEERY CHIEF OPERATING OFFICER / ACTING CHIEF FINANCIAL OFFICER	Mr Kevin James Deery was appointed to the Board on 27 March 2012. He is responsible for ensuring a safety focused workplace, delivering a high-quality product, while overseeing the ongoing business operations of the Group's quality-oriented culture, compliance and operational productivity. Mr Deery has more than 20 years' experience, including significant time spent within the construction and engineering services industry throughout Australia.
	MR CHONG TECK SIN LEAD INDEPENDENT DIRECTOR	Mr Chong Teck Sin was appointed to the Board on 27 March 2012. Mr Chong is currently an Independent Director of Changan Minsheng APLL Logistics Co Ltd, InnoTek Limited and AIMS APAC REITS Management Limited, and a Director of Civmec Construction & Engineering, Singapore Pte Ltd, Accordia Golf Trust Management Pte Ltd and Ranhill Pte Ltd. He has a Bachelor of Engineering from the University of Tokyo, and a Master of Business Administration from the National University of Singapore.
	MR WONG FOOK CHOY SUNNY INDEPENDENT DIRECTOR	Mr Sunny Wong Fook Choy was appointed to the Board on 27 March 2012. He is a practicing advocate and solicitor of the Supreme Court of Singapore, and is currently the Managing Director of Wong Tan & Molly Lim LLC. He is also an Independent Director of Excelpoint Technology Ltd, Mencast Holdings Ltd and InnoTek Limited and a Director and shareholder of WTL Management Services Pte Ltd. Mr Wong holds a Bachelor of Law (Honours) from the National University of Singapore.
	MR DOUGLAS OWEN CHESTER INDEPENDENT DIRECTOR	Mr Douglas Owen Chester was appointed to the Board on 2 November 2012. He is an Independent Director of the Australian Maritime Shipbuilding and Export Group Pty Ltd. He was previously a senior Australian Government official and diplomat and prior to his appointment, held the role of Australia's High Commissioner to Singapore. Mr Chester holds a Bachelor of Science (Honours) from the Australian National University.

Key Risks

Company specific risks

Shortage in workers leading to higher labour costs. Businesses across Australia are battling labour shortages as the economy lifts out of the COVID slowdown. The latest data reveals there are 288,700 unfilled positions in Australia, which translates to the highest job vacancy rate ever recorded. In Western Australia, the threat of border closures has reduced the flow of interstate workers to the mining and agriculture industries.

Execution risk. In July 2020, Civmec filed a legal proceed against Altura Mining to recover payment for works that were undertaken two years ago at the Pilgangoora lithium project in Western Australia. Civmec stated that it was owed around $4.5mn, having carried out substantial additional works beyond the original scope and experienced delays in completing the works. The case is currently ongoing, however, the company stated that is confident of its position and does not consider that the proceedings will have a material impact on the financial performance of the company for the year ending 30 June 2021 or any subsequent financial years.

Macro risks

Slowdown in China market. China has currently imposed trade sanctions on certain Australian livestocks and coal, while concurrently accelerating its self-sustaining policy on iron ore and using recycled steel scrap as a bid to reduce emissions.

Financial Summary

YE 30 June

INCOME STATEMENT (A$'000)	2019A	2020A	2021F	2022F	2023F
Revenue	**488,511**	**391,868**	**648,933**	**700,221**	**755,574**
Cost of sales	-462,978	-347,217	-577,551	-623,197	-672,461
Gross Profit	**25,533**	**44,651**	**71,383**	**77,024**	**83,113**
Admin and other expenses	-16,965	-21,485	-29,202	-31,510	-34,001
Finance income/(expenses)	-4,316	-2,323	-3,154	-3,502	-3,731
Other income	4,701	1,722	2,852	3,077	3,320
Shares in profit/(loss) of JV	39	201	0	0	0
Profit before Tax	**8,992**	**22,766**	**41,878**	**45,090**	**48,701**
Income tax	-1,962	-5,217	-9,632	-10,371	-11,201
Non-controlling interests	955	-37	-1,290	-1,389	-1,500
PATMI	**6,075**	**17,586**	**33,536**	**36,108**	**39,000**

BALANCE SHEET (A$'000)	2019A	2020A	2021F	2022F	2023F
Cash and cash equivalents	40,662	27,712	27,260	23,196	18,823
Trade and other receivables	63,558	74,523	74,523	74,523	74,523
Contract assets	117,443	95,118	95,118	95,118	95,118
Other current assets	5,087	2,051	2,051	2,051	2,051
Current Assets	**226,750**	**199,404**	**198,952**	**194,888**	**190,515**
Property, plant and equipment	201,004	397,804	427,006	462,017	496,018
Intangibles	10	10	10	10	10
Other non-current assets	1,971	2,650	2,408	2,408	2,408
Trade and other receivables	0	493	493	493	493
Non-current Assets	**202,985**	**400,957**	**429,917**	**464,928**	**498,929**
Total assets	**429,735**	**600,361**	**628,869**	**659,816**	**689,444**
Trade and other payables	57,543	91,075	91,075	91,075	91,075
Contract liabilities	69,333	83,266	83,266	83,266	83,266
Borrowings (current)	2,572	2,387	2,626	2,888	3,033
Other current liabilities	11,915	19,687	19,687	19,687	19,687
Current Liabilities	**141,363**	**196,415**	**196,654**	**196,916**	**197,061**
Borrowings (non-current)	95,444	60,000	66,000	72,600	76,230
Other non-current liabilities	18,800	80,873	80,873	80,873	80,873
Non-current liabilities	**114,244**	**140,873**	**146,873**	**153,473**	**157,103**
Shareholders equity	174,206	263,188	284,987	308,457	333,807
Non-controlling interests	(78)	(115)	356	970	1,473
Total Equity	**174,128**	**263,073**	**285,343**	**309,427**	**335,280**
Total Liabilities and Equity	**429,735**	**600,361**	**628,869**	**659,816**	**689,444**

CASH FLOW STATEMENT (A$'000)	2019A	2020A	2021F	2022F	2023F
Net income before tax	8,992	22,766	41,878	45,090	48,701
Depreciation & Amortisation	10,015	10,464	19,468	17,506	18,889
Other non-cash adjustments	2,366	9,243	3,154	3,502	3,731
Operating CF before WC changes	**21,373**	**42,473**	**64,500**	**66,097**	**71,322**
CF from operating activities	**78,861**	**95,201**	**59,720**	**60,230**	**64,395**
Purchase/Disposal of PPE	(68,227)	(70,039)	(48,670)	(52,517)	(52,890)
Other CFI	823	(245)	0	0	0
CF from investing activities	**(67,404)**	**(70,284)**	**(48,670)**	**(52,517)**	**(52,890)**
Dividends Paid	(3,631)	(3,729)	(11,738)	(12,638)	(13,650)
Debt Raised / (Repaid)	9,467	(28,135)	6,239	6,863	3,774
Repayment of lease liabilities	0	(6,003)	(6,003)	(6,003)	(6,003)
CF from financing activities	**5,836**	**(37,867)**	**(11,502)**	**(11,778)**	**(15,879)**
Net increase in cash & cash equiv.	17,293	(12,950)	(452)	(4,064)	(4,373)
Beginning Cash	23,369	40,662	27,712	27,260	23,196
Ending Cash	**40,662**	**27,712**	**27,260**	**23,196**	**18,823**

KEY RATIOS	2019A	2020A	2021F	2022F	2023F
Profitability					
EPS (AUD Cents)	1.21	3.51	6.69	7.21	7.78
EPS Growth (%)	-76.8%	189.5%	90.7%	7.7%	8.0%
DPS (AUD Cents)	0.70	1.04	1.04	1.04	1.04
DPS (Sing Cents)	0.70	1.09	1.09	1.09	1.09
Dividend Yield (%)	0.9%	1.4%	1.4%	1.4%	1.4%
Profitability (%)					
Gross margin	5.2%	11.4%	11.0%	11.0%	11.0%
Net margin	1.4%	4.5%	5.0%	5.0%	5.0%
ROE	3.5%	6.7%	11.8%	11.7%	11.6%
Growth (% Y-o-Y)					
Revenue	-33.9%	-19.8%	65.6%	7.9%	7.9%
Net Profit	-72.4%	149.6%	83.7%	7.7%	8.0%
Financial Structure					
Interest Coverage (x)	2.8	9.9	13.2	12.9	13.3
Net Gearing (%)	32.9%	13.2%	14.5%	16.9%	18.0%

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Rating	Definition
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.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

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