

COMPANY UPDATE

Civmec (CVL SP)

Multiple Tailwinds From A Potential Improvement In Demand And Currency

Since the announcement of major stimulus measures by China's central bank on 24 Sep 24, the S&P/ASX 200 Materials Index has rallied by around 8%. The index is made up of major resources companies of Australia, of which many are customers of Civmec. This is positive, as it implies there could be demand for more construction and maintenance services from Civmec's major customers. The Australian dollar has also strengthened against the Singapore dollar. Maintain BUY with a 6% higher target price of S\$1.40.

WHAT'S NEW

- **Major stimulus measures by China's central bank since 24 Sep 24 may spur demand for Civmec's major customers, which will in turn benefit Civmec.** On 25 Sep 24, China's central bank announced major stimulus measures, including interest rate cuts and mortgage relief. These have sparked a rally in commodity prices and resources stocks. The S&P/ASX 200 Materials Index has rallied by around 8% since 24 Sep 24, before the announcement of the stimulus measures. The index is made up of major resources companies of Australia, including BHP Group, Rio Tinto, Fortescue, Pilbara Minerals and etc, of which many are customers of Civmec. This is a positive and points to more construction and maintenance services from Civmec's major customers. To recap, the resources segment made up of around 80% of Civmec's group operating income in FY24, followed by infrastructure, marine & defence which contributed around 15% of FY24 operating income.
- **Positive currency effect from the Australian dollar strengthening against the Singapore dollar.** Since the US Fed cut its interest rates by 50bps on 18 Sep 24, the Australian dollar has strengthened by around 0.3% against the Singapore dollar. Given that: a) the Reserve Bank of Australia will be cutting its interest rates at a much slower pace than the US Fed, and b) the positive sentiment due to the rising commodity prices brought about by stimulus measures from China's central bank, the Australian dollar has further room to strengthen against the Singapore dollar. This could be positive for Singapore investors, as it implies higher dividends and earnings when translated from Australian dollars to Singapore dollars.
- **Earnings and dividend beat in FY24 results; ample room for more dividend coupled with robust outlook.** In its latest set of results, Civmec reported record FY24 earnings of A\$64m (+12% yoy), beating our estimate by 2%. Revenue surged 24% yoy to a record-high of A\$1.03b, on higher activity levels for the resources (+29% yoy) and infrastructure, marine & defence (+15% yoy) segments. Its final dividend of 3.5 A cents/share is above our expectation, bringing the total FY24 dividend higher by 20% to 6 A cents/share vs our expectation of 5 A cents/share. We believe there is ample room for higher dividends given that Civmec's dividend payout ratio was only 47% in FY24 and its balance sheet has been strengthening; note that Civmec's net cash position increased by 76% yoy to A\$25m in FY24. Civmec has also continued to see strong tendering activities across all sectors.

KEY FINANCIALS

Year to 30 Jun (A\$m)	2023	2024	2025F	2026F	2027F
Net turnover	831	1,033	1,100	1,171	1,249
EBITDA	103	112	122	130	136
Operating profit	85	92	101	109	115
Net profit (rep./act.)	58	64	67	70	74
Net profit (adj.)	58	64	67	70	74
EPS (A\$)	11.4	12.7	13.2	13.8	14.5
PE (x)	10.4	9.3	9.0	8.6	8.2
P/B (x)	1.4	1.2	1.2	1.1	1.0
EV/EBITDA (x)	5.2	4.8	4.4	4.1	4.0
Dividend yield (%)	4.2	5.1	5.9	6.3	6.8
Net margin (%)	6.9	6.2	6.1	6.0	5.9
Net debt/(cash) to equity (%)	(3.3)	(5.0)	(12.5)	(17.1)	(21.3)
Interest cover (x)	21.6	18.5	23.8	14.0	14.6
ROE (%)	14.6	14.2	13.3	13.1	13.0
Consensus net profit (A\$m)	-	-	65	70	65
UOBKH/Consensus (x)	-	-	1.03	1.01	1.13

Source: Civmec, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.04
Target Price	S\$1.40
Upside	+34.6%
(Previous TP)	S\$1.32)

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):	508.5
Market cap (S\$m):	528.9
Market cap (US\$m):	402.8
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

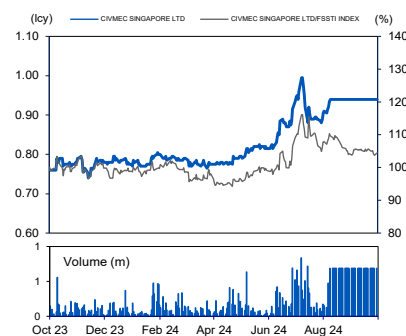
52-week high/low	S\$1.09/S\$0.73				
1mth	3mth	6mth	1yr	YTD	
6.7	13.7	34.2	35.9	33.3	

Major Shareholders

James Finbarr Fitzgerald	19.5
Patrick John Tallon	19.5

FY25 NAV/Share (A\$)	1.02
FY25 Net Cash/Share (A\$)	0.13

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Tendering activity continues to be strong across all sectors**, with Civmec focused on securing projects that will allow it to grow its workforce and revenue at a sustainable pace. Opportunities remain plentiful for Civmec to keep replenishing its orderbook, which amounted to over A\$853m as of FY24.
- **Civmec has continued to grow its engineering design capability** with an understanding that there is strong demand for original equipment manufacturer (OEM) material handling machines, for both new facilities and replacement of ageing assets. A conservative analysis of the OEM materials handling market shows that there will be demand for more than 30 machines over the next 10 years in Australia. Presently Civmec is the only Australian company with a full in-house service offering covering the life cycle of materials handling balance machines. In addition to this, Civmec is committed to supporting future shipbuilding programmes in the defence sector. It is presently working towards formalising the previously announced MOU for a strategic JV to tender for the LAND8710 landing craft heavy shipbuilding programme for the Commonwealth of Australia, which opens the opportunity for Civmec to potentially participate in over A\$25b of future works.

EARNINGS REVISION/RISK

- We maintain our FY25-26 earnings forecasts but introduce FY27 financial estimates.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 6% higher target price of S\$1.40**, pegged to 12x FY25F PE (based on 0.5SD below its long-term historical mean). We have increased our PE multiple peg from 11x to 12x, as Civmec's PE multiple has re-rated upwards due to its improving track record of good results and dividends, coupled with the change in domicile to Australia. We think Civmec's current valuation of 9x FY25 PE is attractive, given its strong orderbook. The stock is trading at a deep 53% discount to its Australia peers, which are trading at an average of 19x FY25F PE.

SHARE PRICE CATALYST

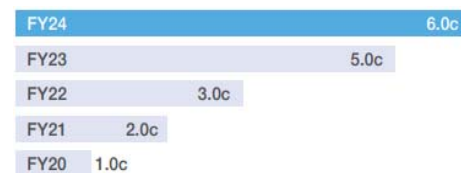
- Earnings surprise due to higher-than-expected contract wins and margin.
- Better-than-expected dividends.
- Takeover offer by strategic shareholder(s) given the high barriers of entry for the defence business.

PEER COMPARISON

Company	Ticker	Price @ 21 Oct 24 (1cy)	Market Cap (US\$m)	PE			P/B 2024 (x)	EVE/EBITDA 2024 (x)	ROE 2024 (%)	Yield 2024 (%)	Net Margin 2024 (%)
				2023 (x)	2024 (x)	2025 (x)					
Australia Peers											
MONadelphous	MND AU	12.9	881	23.1	20.1	17.9	2.7	9.1	13.8	4.5	3.1
NRW Holdings	NWH AU	3.59	1,133	18.9	15.5	12.2	2.5	5.2	16.6	4.3	3.6
Imdex Ltd	IMD AU	2.37	842	29.8	37.3	24.2	2.1	11.1	5.7	1.2	7.3
Austal	ASB AU	2.925	736	n.a.	71.3	22.9	1.1	9.5	1.5	1.0	1.0
Average				23.9	36.1	19.3	2.1	8.7	9.4	2.8	3.7
Asia Peers											
ST Engineering	STE SP	4.63	11,278	24.6	20.3	17.7	5.4	13.0	27.1	3.6	6.3
Sany Heavy Equip	631 HK	5.55	2,296	8.6	8.2	7.1	1.2	6.2	15.7	3.8	9.3
Favelle Favco	FAVCO MK	1.86	107	8.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average				13.9	14.3	12.4	3.3	9.6	21.4	3.7	7.8
Singapore Peers											
Dyna-Mac	DMHL SP	0.66	564	22.9	12.9	10.9	n.a.	7.1	n.a.	2.7	11.7
Cse Global	CSE SP	0.44	233	11.7	11.9	9.1	1.2	7.6	11.7	6.5	2.8
Marco Polo Marine	MPM SP	0.054	161	9.2	6.9	6.1	1.0	4.0	13.7	1.8	18.2
Atlantic Nav	ATL SP	0.345	141	7.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average				12.9	10.6	8.7	1.1	6.2	12.7	3.7	10.9
Civmec	CVL SP	1.04	403	9.3	9.0	8.6	1.2	n.a.	14.2	5.1	6.2

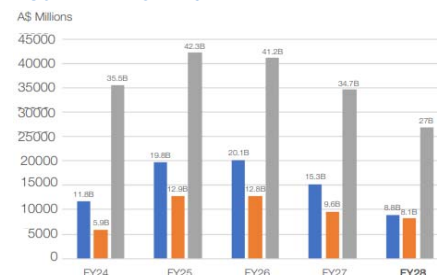
Source: Bloomberg, UOB Kay Hian

STRONG DIVIDEND TRACK RECORD



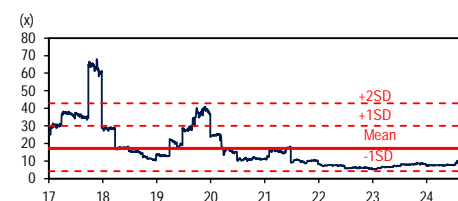
Source: Civmec, UOB Kay Hian

PUBLICLY AVAILABLE INFORMATION SUGGESTED -A\$305.8B OF TARGETABLE OPPORTUNITIES ACROSS THE SECTORS CIVMEC OPERATES IN AUSTRALIA TO FY28



Source: BIS Oxford Economics

LONG-TERM PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (A\$m)	2024	2025F	2026F	2027F
Net turnover	1,033.5	1,099.9	1,171.4	1,248.9
EBITDA	111.9	121.8	130.0	135.8
Deprec. & amort.	19.7	21.3	21.2	21.1
EBIT	92.2	100.5	108.8	114.7
Total other non-operating income	5.3	0.4	0.9	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(6.1)	(5.1)	(9.3)	(9.3)
Pre-tax profit	91.5	95.8	100.4	105.4
Tax	(27.1)	(28.7)	(30.1)	(31.6)
Minorities	0.0	(0.1)	(0.1)	(0.1)
Net profit	64.4	67.0	70.2	73.7
Net profit (adj.)	64.4	67.0	70.2	73.7

BALANCE SHEET

Year to 30 Jun (A\$m)	2024	2025F	2026F	2027F
Fixed assets	532.8	529.5	527.3	526.3
Other LT assets	19.4	19.4	19.4	19.4
Cash/ST investment	88.5	129.1	158.5	188.7
Other current assets	269.6	276.4	294.2	313.6
Total assets	910.3	954.4	999.5	1,048.0
ST debt	8.0	8.0	8.0	8.0
Other current liabilities	234.3	246.9	259.7	275.1
LT debt	56.0	56.0	56.0	56.0
Other LT liabilities	123.8	123.8	123.8	123.8
Shareholders' equity	488.5	519.9	552.1	585.2
Minority interest	(0.3)	(0.2)	(0.1)	(0.0)
Total liabilities & equity	910.3	954.4	999.5	1,048.0

CASH FLOW

Year to 30 Jun (A\$m)	2024	2025F	2026F	2027F
Operating	71.4	94.1	86.5	90.9
Profit for the year	91.5	95.8	100.4	105.4
Tax	(27.1)	(28.7)	(30.1)	(31.6)
Deprec. & amort.	19.7	21.3	21.2	21.1
Associates	0.0	0.0	0.0	0.0
Working capital changes	(19.7)	5.8	(5.0)	(4.0)
Non-cash items	(0.1)	0.0	0.0	0.0
Other operating cashflows	7.0	0.0	0.0	0.0
Investing	(25.1)	(18.0)	(19.0)	(20.0)
Capex (growth)	(25.2)	(18.0)	(19.0)	(20.0)
Investment	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(28.2)	(35.5)	(38.1)	(40.6)
Dividend payments	(27.9)	(35.5)	(38.1)	(40.6)
Proceeds from borrowings	21.5	0.0	0.0	0.0
Loan repayment	(14.0)	0.0	0.0	0.0
Others/interest paid	(7.8)	0.0	0.0	0.0
Net cash inflow (outflow)	18.1	40.6	29.4	30.3
Beginning cash & cash equivalent	70.4	88.5	129.1	158.5
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	88.5	129.1	158.5	188.7

KEY METRICS

Year to 30 Jun (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	10.8	11.1	11.1	10.9
Pre-tax margin	8.9	8.7	8.6	8.4
Net margin	6.2	6.1	6.0	5.9
ROA	7.6	7.2	7.2	7.2
ROE	14.2	13.3	13.1	13.0
Growth				
Turnover	24.4	6.4	6.5	6.6
EBITDA	8.5	8.9	6.7	4.5
Pre-tax profit	10.8	4.7	4.8	5.0
Net profit	11.7	4.0	4.8	5.0
Net profit (adj.)	11.7	4.0	4.8	5.0
EPS	11.2	3.9	4.8	5.0
Leverage				
Debt to total capital	11.6	11.0	10.4	9.9
Debt to equity	13.1	12.3	11.6	10.9
Net debt/(cash) to equity	(5.0)	(12.5)	(17.1)	(21.3)
Interest cover (x)	18.5	23.8	14.0	14.6

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