



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Civmec Limited

Security: Civmec Limited

Meeting details:

Date: 25 October 2018

Time: 1.30 p.m.

Venue: Novotel Singapore, Clarke Quay, Nutmeg Room, Level 5, 177A River Valley Road, Singapore 179031

Company Description

Civmec Limited, an investment holding company, provides heavy engineering and construction services for the metals and minerals, oil and gas, water and energy, infrastructure, and marine and defense markets in Australia, Papua New Guinea, and Uganda. The company operates through three segments: Oil and Gas, Metals and Minerals, and Infrastructure. It undertakes fabrication projects, such as structural steel, plate works, tanks, vessels, materials handling equipment, subsea and offshore structures, interactive map, and pipe spooling services. The company also offers modularization services; site civil works, including earthworks, reinforcing steel works, formworks, civil works, concrete placement, and backfill and compaction to final handover; and pre-cast concrete products comprising pre-stressed beams, structural foundations, caissons, floor slabs and retaining walls, suspended slab sections, purpose built facilities, and breakwater systems. In addition, the company undertakes structural, mechanical, piping, and electrical instrumentation projects consisting of structural assembly and erection, mechanical installations and alignments, piping installation and pre-commissioning support, site welding, tanks, and equipment; and provides electrical and instrumentation solutions, such as electrical and instrumentation installations, substations, switch rooms and switchyard construction, and shutdown and maintenance services. Further, it offers industrial insulation services, including sheet metal and light gauge fabrication, fireproofing, surface treatment, and site installation; integrated supply chain solutions to the onshore and offshore drilling industry; maintenance services comprising planned and emergency shutdowns, concrete repairs, and mechanical upgrades; access solutions, such as scaffolds, fabricated platforms, rope access, and netting systems; and executes refractory projects. Civmec Limited was founded in 2009 and is headquartered in Perth, Australia.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=P9D)

1. On 16 April 2018, the company announced that it won the contract from Luerksen Australia to build 10 of the 12 vessels under the Royal Australian Navy's SEA 1180 Offshore Patrol Vessel (OPV) programme. This includes the supply and processing of steel for all 12 vessels.

The company has also partnered with Luerksen to form a new company, Australian Maritime Shipbuilding and Export Group (AMSEG), to serve as a subcontractor to Luerksen in the delivery of the OPV programme.

The state-of-the-art 53,000 sqm (gross floor area), 70-metre high, purpose-built undercover shipbuilding facility in Henderson is targeted for completion by late 2019.

(i) Can management disclose the total capital expenditure budgeted for the new shipbuilding facility at the group's Henderson yard?

In Note 24 (page 122 – Commitments), a further \$25.0 million of capital expenditure has been contracted but not recognised in the financial statements as at the reporting date, with \$21.6 million of such capital expenditure to be incurred within the next 12 months. The group's net debt-to-equity ratio has increased from 0.54x as at 30 June 2017 to 1.03x as at 30 June 2018. The company has defined net debt-to-equity ratio as calculated as net debt divided by total equity where net debt is calculated as total financial liabilities less cash and cash equivalents.

(ii) How is the company going to fund the capital expenditure to support its push into the Marine & Defence sector?

(iii) Can the board help shareholders understand if it has set any internal limits on the net debt-to-equity ratio, given that the ratio stands at 1.03x as at 30 June 2018 (up from 0.54x a year ago), given that it has to meet financial covenants for its borrowings?

(iv) How much more working capital is required once the supply and processing of steel and the actual shipbuilding of the OPV commence?

(v) Does the group have sufficient financial resources to fund the growth in all the segments? Has the board evaluated the need to raise funds to further strengthen its balance sheet to support the growth, and to at least maintain the dividend payout?

2. Would the board/management provide shareholders with better clarity on the following matters?

(i) Revenue growth: Revenue in FY2018 more than doubled to S\$738.7 million with net profit after tax increasing by 210% to S\$25.5 million. In the operating currency of A\$, revenue increased by 116% and net profit after tax increased by 212% to A\$24.7 million. This strong performance was attributed mainly to the 167% increase in revenue from the oil & gas sector and the 136% increase in the metals & minerals segment. On page 11, in the Financial highlights, the order

book is shown as S\$707 million (A\$700 million) and on page 6, it is stated that the total value of projects in delivery in 2018 was S\$1.8 billion. **Can management help shareholders understand the sustainability of the revenue growth? How is the group balancing revenue/project pipeline and profit margins as it competes for projects?**

- (ii) **Administrative expenses:** In the Consolidated income statement, the group has shown the administrative expenses as a line item of \$(18.537) million in FY2018 (FY2017: \$(26.774) million) but it had not provided any further information. **Can management help shareholders understand the reason(s) for the drop in administrative expenses when revenue more than doubled in the year? Can the company provide a breakdown to this? What would be the expected level of administrative expenses going forward?**
- (iii) **Profit margin:** The group's Other income increased from \$2.22 million in FY2017 to \$8.7 million in FY2018, mainly due to the receipt of \$7.4 million in insurance recovery (page 99). Otherwise, gross profit increased by \$10.6 million (from \$37.1 million in FY2017 to \$47.7 million in FY2018) when revenue increased by \$393 million over the same period. Gross profit margin in FY2018 has dipped to just 6.5%. The group's gross profit margin has slipped from 18.5% in 2012, to 17.2% in 2013, to 14.7% in 2014, to 12.4% in 2015, to 11.0% in 2016, to 10.7% in 2017 and to 6.5% in 2018. **Can management elaborate further on its plans to maintain or grow its gross profit margin?**

3. In June 2018, the group successfully achieved dual listing status, with its acceptance on the Australian Securities Exchange (ASX).

- (i) **Can the board help shareholders understand the differences in governance, compliance, listing requirements and accounting standards between the ASX and the SGX?**
- (ii) **Following the successful dual listing, will the group be spending disproportionately larger amount of time and resources to maintain both listings?**
- (iii) **As disclosed, the material benefits for the dual listing included increasing the group's profile in Australia, facilitating easier fund raising and broadening the shareholder base of the company. How much of these benefits have been realised? What is the relative trading volumes on SGX vs ASX since June 2018? Will the company be carrying out an equity fund raising in Australia?**

On 28 September 2018, the company announced that it has changed its presentation currency from Singapore dollars to Australian dollars, with effect from 1 July 2018, to align the presentation currency with the functional currency (in AUD) of the company and its main operating subsidiaries.



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- (iv) While the switch to AUD for its presentation is logical, can the board help shareholders understand its commitment to its shareholders in Singapore, especially with regard to the listing on the SGX?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 and 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Civmec%20Ltd>

The company's response could be found here: -----