

**HD Corporate: Civmec ventures into LNG sector and equipment maintenance as mining wanes**

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**WC** 1,365 words

**PD** 11 August 2014

**SN** The Edge Singapore

**SC** EDGESI

**LA** English

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Jim Fitzgerald, co-founder and chairman of Civmec, the provider of heavy engineering and construction services to the Australian mining sector, has devised a new strategy to lift his company out of the doldrums and generate revenue in the quarters ahead. The move will see Civmec expanding further into the Australian liquefied natural gas (LNG) sector and becoming a one-stop shop for equipment maintenance and upgrading.

On July 29, Fitzgerald announced a wider suite of business units aimed at increasing the company's relevance to the mining and LNG sectors. He is betting that Civmec's new structural, mechanical and piping (SMP) installation, industrial insulation, offshore logistics and maintenance services will add value to the company's current focus on civil construction work and fabrication of structural steel and concrete structures.

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The foray comes at a time when investments in Australia's resources sector are on the wane as projects are completed and the focus shifts to output and production. In 2012, the Australian Reserve Bank said investments in the country's resources sector were likely to peak by 2014. Year-to-date, the Bureau of Resources and Energy Economics (BREE) recorded a total of 48 committed-capital projects valued at A\$229 billion (\$266.7 billion) as at end-April. This compares with 63 projects worth A\$240 billion six months earlier.

The decline was largely owing to the completion of existing projects and a fall in the volume of new mining projects. This has resulted in a pullback by miners such as Rio Tinto and BHP Billiton and led to a fall in demand for service providers such as Civmec, which relies on the miners for contract work. In contrast, BREE noted large increases in production capacity for resources and energy commodities.

"As the mining industry reduces its capital expenditure, we see a huge requirement for maintenance and upgrading of existing plants and equipment. As such, we have developed a multi-disciplinary approach to the business that will allow us to meet a wider spectrum of demand," says Patrick Tallon, CEO of Civmec.

"The enhancement of our capabilities is actually driven by increasing demand from our mining customers for a one-stop shop for all their engineering needs so that they can avoid unnecessary costs and delays, have better control over their projects and not have to go to multiple vendors. We can now meet this demand for a more holistic package of services," Fitzgerald says. "The multidisciplinary nature of our business is the key difference between us and our competitors."

Falling stock

On the face of it, Fitzgerald's plan to reposition his business appears to have taken a long time as it comes two years after the Australian central bank's prediction. Since then, Civmec has seen its share price drop substantially from its highs just two years ago. In fact, the company was once among the top performers on the Singapore Exchange. It was founded in 2009 by Fitzgerald, who was executive director of former mining services provider AusGroup between 2005 and 2008. Several other senior managers of Civmec are also former employees of AusGroup.

In April 2012, backed by an extensive list of pre-IPO investors such as Ang Kong Hua, chairman of Sembcorp Industries and Global Logistic Properties; and Ernest Wong, former president of United Overseas Bank, Civmec took its shares public at 40 cents apiece. Fuelled by the rapid rise in

investments in the Australian resources and **energy** sectors, the stock rose 30% in the first week of listing and continued to climb for the rest of the year. Civmec hit a high of \$1.25 in January 2013, more than three times its IPO value.

But as the investment cycle turned and fortunes in the industry shifted, demand for Civmec's services began to crumble, and the stock eventually lost its appeal among investors. By August 2013, Civmec had dropped to a low of 50 cents. It is currently trading at 70 cents on thin volume. Both Fitzgerald and Tallon are major shareholders of Civmec, with each holding a 19.5% **stake**.

For the nine months to March 31, 2014, Civmec reported revenues of \$267 **million**, down 18.2% from a year ago. Meanwhile, earnings came in at \$23.5 **million**, down 12.4% y-o-y. Currently, it has an order book valued at \$323 **million** and gross margins of 13% to 15%.

#### Planned growth

Fitzgerald says his plan to reposition Civmec as a higher value-added service provider had been in the works since 2012, when it began investing in new equipment to carry out SMP installation work as well as modular assembly and industrial insulation work. Over the last 12 months, the **company** has also scaled up the capabilities of its sea-facing facility in Henderson, Western Australia, with an additional 20,000 sq **m** of land to make up a total of 120,000 sq **m**.

Civmec also completed construction of a 4,800 sq **m** surface treatment facility so that it can perform its own blasting and paint works under one roof. In the past, these functions were typically outsourced. Meanwhile, it has increased its capacity to take on more modular assembly work at its facility and set up a 2,500 sq **m** workshop to take on more maintenance work from **mining** companies in Western Australia, which are shifting from capex to operating expenditure.

"In the last five years since we started out, we have built up the Henderson facility into the largest integrated heavy engineering facility in Australia," says Fitzgerald. "The recent expansion will enable Civmec to take on more projects, whereas in the past we were very cautious about how many projects we could take on at a time, owing to space constraints."

#### LNG prospects

Most importantly, Fitzgerald is also positioning Civmec to benefit from the demand in the booming Australian LNG sector. Last June, the **company** acquired a 38,000 sq **m** logistics base in Darwin to secure a foothold in the Northern Territory of Australia, where LNG exploration activities are expected to increase. Since then, Civmec has set up a 48,000 sq **m** concrete precast yard in that facility to take on more work producing precast concrete structures and modular assembly work for its LNG customers.

In fact, Civmec has already established a track record in the LNG space. In 2011, it supplied some 46,000 cu **m** of precast concrete footings to Chevron for its Gorgon Barrow Island onshore LNG processing plant. That paved the way for it to provide precast concrete structures for Chevron's joint venture in the Wheatstone LNG project in Western Australia. Civmec is now carrying out precast concrete production work for Japanese **oil** and gas **firm** Inpex Corp.

"There are six major LNG projects in Australia and we are involved in three. Our customers are coming back to us with recurring work and new customers are approaching us based on our track record," says Tallon. "We see many opportunities for growth in the LNG sector, especially with the growing volume of public infrastructure projects in developing countries close to Australia that are investing in the exploration and production of LNG."

And that's not all. Civmec has begun constructing a 1,200 sq **m** subsea workshop at its Henderson facility that will enable it to assemble subsea manifolds for use in the offshore sector. In 2011, it successfully fabricated and assembled four such manifolds for **oil** and gas **firm** Apache Corp. "We are looking to expand in the offshore subsea space, where we will have an edge over cheaper yards in **China**, owing to our quality and efficiencies," says Fitzgerald. "We also see the opportunity for more work in the LNG sector and aim to have 50% of our revenues generated by the LNG sector over the next five years. Currently, **mining** contributes up to 65% of our revenues."

Civmec is trading at 10.8 times current earnings and 7.8 times forward earnings. It has a market capitalisation of \$352 **million**. As at end-March, it had a gearing of 22%.

**CO** cicaep : Civmec Ltd.

**IN** i501 : Building Construction | i5010023 : Institutional/Commercial Building Construction | iconst : Construction | icre : Real Estate/Construction

**RE** singp : Singapore | austr : Australia | waustr : Western Australia | apacz : Asia Pacific | asiaz : Asia |  
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**PUB** The Edge Publishing Pte Ltd

**AN** Document EDGESI0020140812ea8b00008