

Engineering, Industrial Services & Engineering Innovation

Commodity Prices Slip as China's Economic Growth Slows, Raising Concerns

Week Ending: **21 July 2023**

On Monday, commodity prices experienced a decline as China's economy reported slower growth than expected in the second quarter. This development has added to concerns about the lackluster recovery of Australia's largest export partner.

The focus of market concern is now on whether Chinese authorities will announce significant economic stimulus measures to boost growth, which has been less robust than anticipated since the country emerged from strict COVID-19 lockdowns.

As a result of the economic data, various commodity prices experienced a drop. Iron ore fell 1.1 percent to \$112.60 per tonne on the July contract in Singapore, while copper led base metals lower on the London Metal Exchange, falling 0.9 percent to \$8,598 per tonne. Additionally, the global benchmark Brent crude declined towards \$79 per barrel after losing 1.8 percent on Friday.

The National Bureau of Statistics reported that China's economy expanded by 6.3 percent in the second quarter compared to the same period last year. This growth rate missed economist estimates of 7.1 percent growth, based on a Bloomberg survey. The slowdown was attributed to a notable drop in consumer spending and ongoing challenges in the property market.

June's monthly indicators revealed a significant slide in retail sales, dropping to 3.1 percent year-on-year from 12.7 percent in May, along with weakening in the property market. While the urban jobless rate remained unchanged at 5.2 percent in June, the youth unemployment rate surged to 21.3 percent.

Investors are eagerly awaiting the outcome of China's State Council and a Politburo meeting scheduled at the end of the month. During these meetings, authorities will review the country's economic performance in the first half of the year and potentially announce further stimulus measures. However, it is unlikely that the stimulus will match the magnitude of the infrastructure stimulus seen in the past.

Chinese officials have already indicated a focus on green energy, such as wind and solar, and reducing the carbon intensity of GDP growth in their five-year plan through 2025. This shift may have implications for bulk commodities.

Throughout the year, commodity prices have faced pressure due to China's weakness and global monetary tightening, which dampened demand expectations. Last week, there was speculation that Beijing would take steps to bolster the country's struggling property sector, leading to a temporary increase in prices. However, the measures taken so far appear insufficient to revive the property market's downturn.

Investment in property development in China fell 7.9 percent in the first half, which was slightly worse than the forecasted 7.5 percent decline.

For the resource sector, two key factors remain crucial: the direction of interest rates and the resilience of China's economy, given its significant role as a buyer of more than 50 percent of most commodities. As such, fund managers are closely monitoring the possibility of more stimulus announcements from China to support the resource sector.

David Franklyn, who manages Argonaut Funds Management's natural resource fund, emphasised the importance of China's energy transition, with increased demand expected for metals like copper, lithium, and rare earth minerals in the long term.

However, uncertainty remains about the extent of China's future economic injection and the potential for structural issues in the economy. As a result, many investors are cautious, keeping a significant portion of their assets in cash until there is greater clarity on US interest rates and China's stimulus measures.

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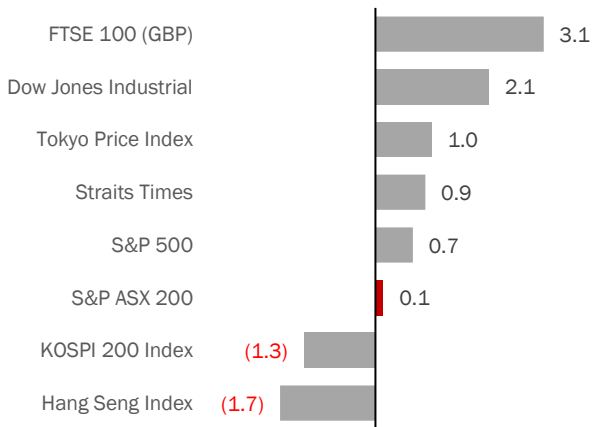
Australian Macroeconomic Update

The S&P ASX 200 was relatively flat last week, rising 0.1% to end the week.

The July RBA meeting minutes presented a detailed account of the Board's deliberations and their assessment of risks. The case presented for raising the cash rate was familiar, centred on the strength of the labour market and upside risks to both wages and inflation. A mark of the economy's resilience under

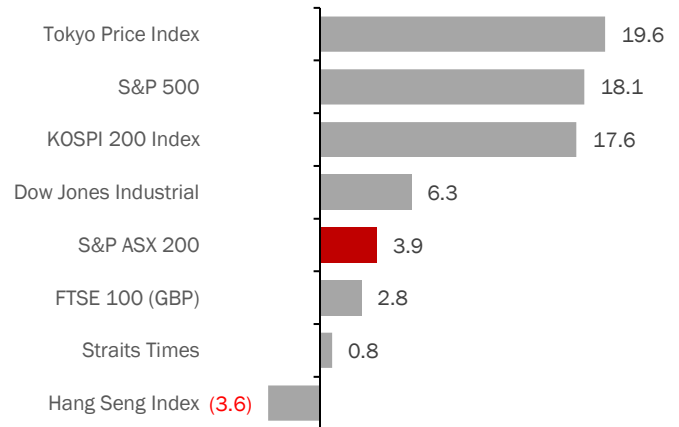
intense interest rate pressures, the June labour force survey provided yet another robust and well-rounded update on the labour market. Of note, the average pace of employment growth remains virtually unchanged from last year – when Australia's reopening 'burst' was in full flight and the unemployment rate now sits just 0.04ppt above the cycle low observed in October 2022. The detail also indicates recent job growth has been of high quality.

Exhibit 3: Global Equities Index Total Return
One Week Return Benchmark



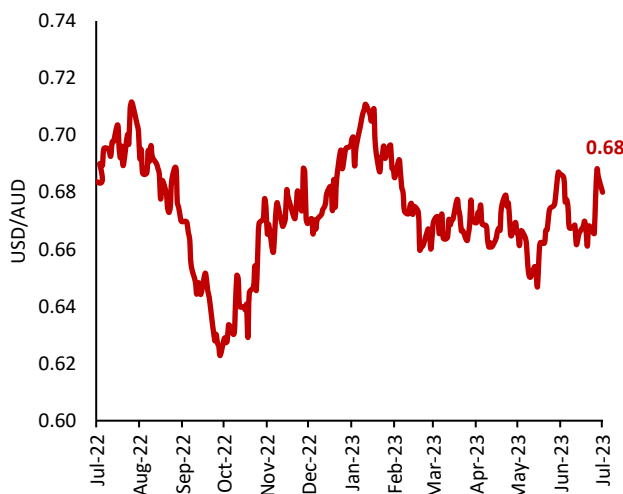
Source: Capital IQ, LCC Asia Pacific Research

Exhibit 4: Global Equities Index Total Return
Year to Date (YTD) Return Benchmark



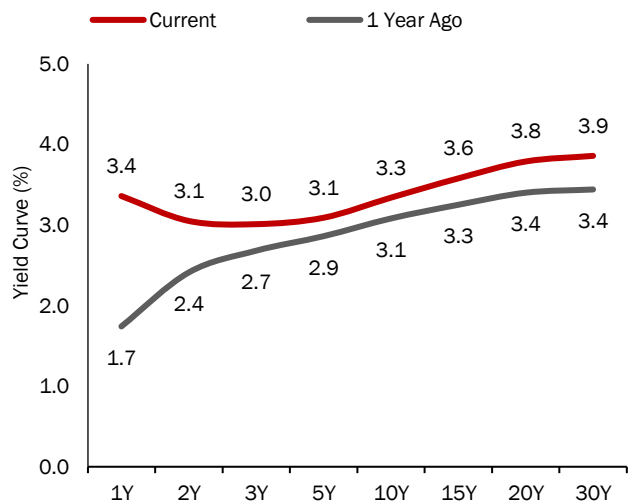
Source: Capital IQ, LCC Asia Pacific Research

Exhibit 5: Daily USD/AUD Exchange Rate Chart
Exchange Rate over time (-1Y)



Source: Capital IQ, Interactive Data Pricing

Exhibit 6: Australian Yield Curve
Yield Curve % Relative to Historic Benchmark



Source: Capital IQ, Interactive Data Pricing

LCC's Engineering, Industrial Services & Innovation Index

Key Charts

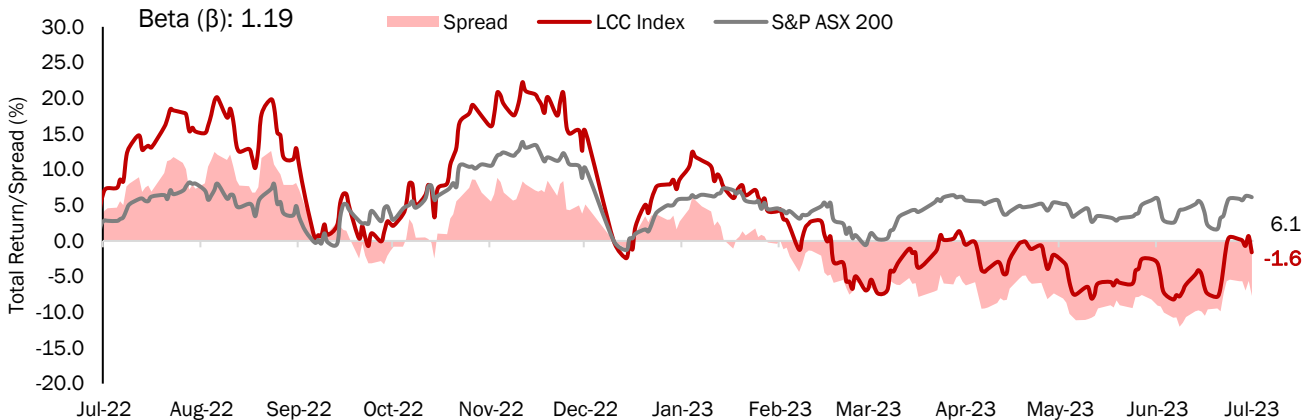
Exhibit 7: LCC Index Valuation Summary

Combined Market Capitalisation Weighted Index, Last Twelve Months (LTM)

Metric	Current	High	Low	Yr. Avg	Yr. Change
Total Return	(1.6%)	22.2%	(8.2%)	4.9%	(1.6%)
Dividend Yield	3.4%	3.7%	2.7%	3.1%	(10.0%)
Price/Earnings	19.4x	23.6x	16.6x	19.3x	(15.6%)
Price/Book	2.3x	3.0x	2.0x	2.5x	14.2%

Exhibit 8: LCC's Australian Engineering Index Total Return % Relative to the S&P ASX200 Benchmark Index

Total Return and Spread Information (-1Y)



Source: S&P Global Market Intelligence, LCC Asia Pacific Research

Exhibit 9: LCC Engineering Index Price-to-Earnings Ratio

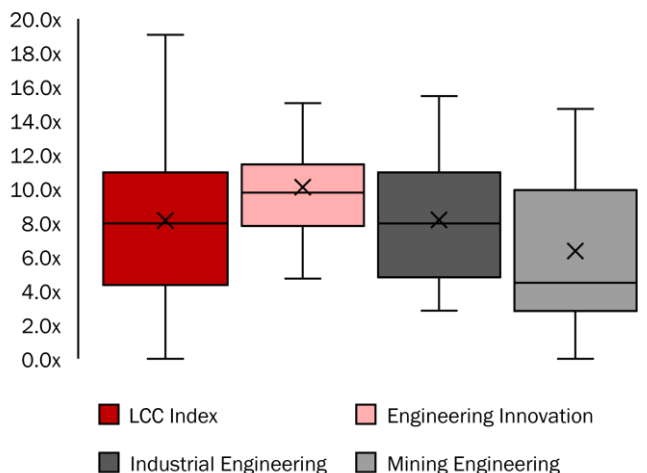
Market Cap Weighted Current PE Ratio Over Time (-1Y)



Source: Capital IQ, LCC Asia Pacific Research

Exhibit 10: EV/EBITDA Index Valuation

Dynamic Market Cap Weighted, LCC Index Sub-segments

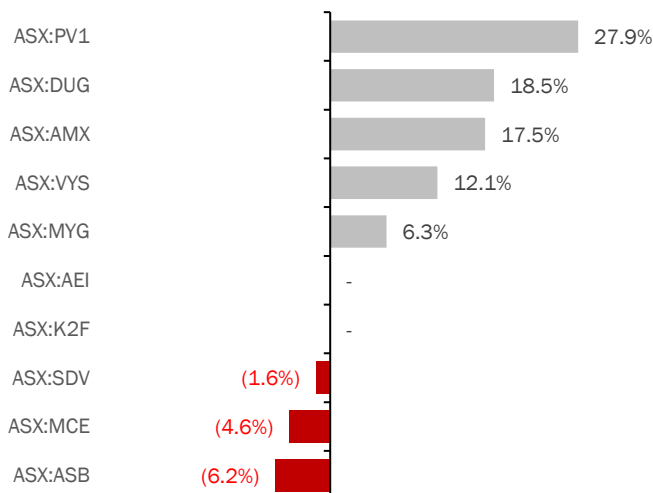


Source: Capital IQ, LCC Asia Pacific Research

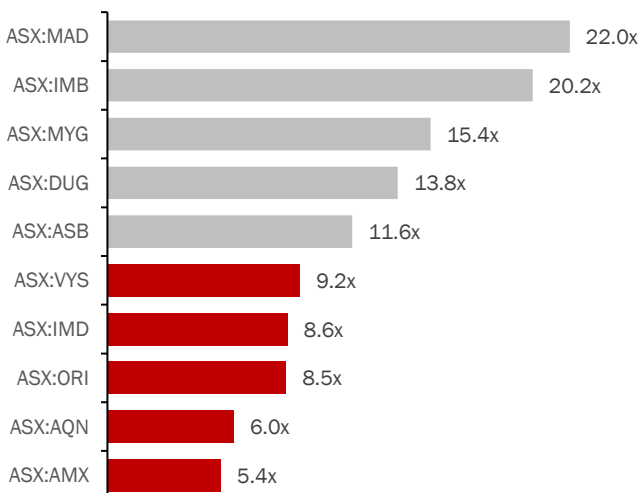
Engineering Innovation

Ticker	News/ Event
DUG	DUG secures A\$5 million in government grant funding for Geraldton HPC Campus. The first data hall will have a capacity of 400 petaflops of compute, enabling a thirteen-fold growth in DUG's compute power once fully established.
IMD	Intelligent Monitoring Group Limited has filed a Follow-on Equity Offering in the amount of AUD 2.717489 million.
VYS	The Board of Vysarn is pleased to provide revised earnings guidance for FY2023. The Company forecasts to deliver Net Profit Before Tax (NPBT) of \$6.8 million to \$7 million in FY2023.

Top 5/Bottom 5 Weekly Price Change



Top 5/Bottom 5 EV/EBITDA Multiple (Latest)

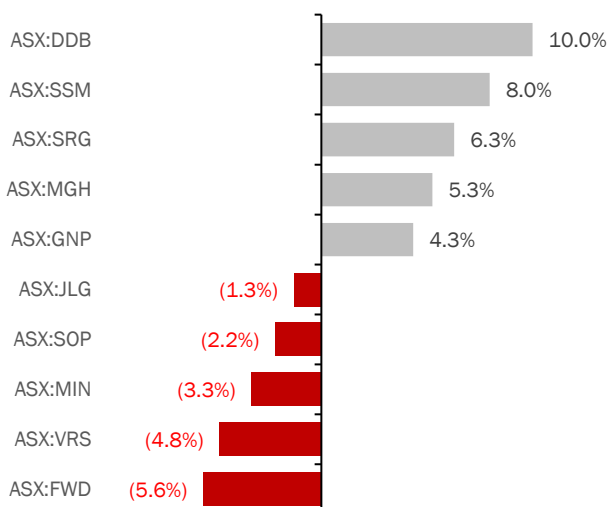


Ticker	Company Name	Market Cap (m)	Open Price	Close Price	Week High	Weekly change (%)	Volume Trend	EV/ EBITDA	EV/ EBIT
ASX:AEI	Aeris Environmental Ltd	6	0.03	0.03	0.03	— 0.0%		NM	NM
ASX:AMX	Aerometrex Limited	35	0.35	0.37	0.38	▲ 17.5%		5.4x	NM
ASX:ALQ	ALS Limited	5,485	11.25	11.33	11.74	▲ 0.1%		10.9x	14.4x
ASX:AQN	Aquirian Limited	16	NA	0.20	0.21	▲ 5.3%		6.0x	30.9x
ASX:ASB	Austal Limited	928	2.76	2.57	2.77	▼ -6.2%		11.6x	28.2x
ASX:DUG	DUG Technology Ltd	182	1.38	1.54	1.62	▲ 18.5%		13.8x	34.2x
ASX:IMD	Imdex Limited	971	1.91	1.92	1.95	— 0.0%		8.6x	12.4x
ASX:IMB	Intelligent Monitoring Group Limited	45	0.19	0.20	0.20	▲ 2.6%		20.2x	NM
ASX:K2F	K2fly Limited	18	NA	0.11	0.11	— 0.0%		NM	NM
ASX:LBL	LaserBond Limited	85	0.78	0.78	0.83	▲ 1.3%		9.3x	14.2x
ASX:MAD	Mader Group Limited	1,194	5.91	5.97	6.15	▲ 1.5%		22.0x	28.0x
ASX:MCE	Matrix Composites & Engineering Ltd	56	0.27	0.26	0.28	▼ -4.6%		NM	NM
ASX:MYG	Mayfield Group Holdings Limited	38	NA	0.42	0.42	▲ 6.3%		15.4x	80.7x
ASX:ORI	Orica Limited	6,983	15.12	15.33	15.42	▲ 1.3%		8.5x	12.9x
ASX:PV1	Provaris Energy Ltd	48	0.07	0.09	0.09	▲ 27.9%		NM	NM
ASX:RUL	RPMGlobal Holdings Limited	378	1.61	1.66	1.75	▲ 2.5%		NM	NM
ASX:SDV	SciDev Limited	57	NA	0.30	0.32	▼ -1.6%		10.4x	21.1x
ASX:VYS	Vysarn Limited	66	0.16	0.16	0.17	▲ 12.1%		9.2x	24.4x

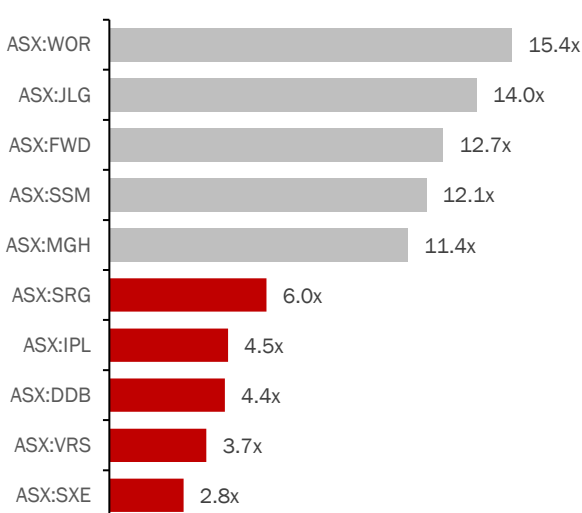
Industrial Engineering Services

Ticker	News/ Event
GNP	GenusPlus has entered into a 3-year Master Module Agreement (Master Module Agreement) with NBN Co pursuant to which nbn has awarded GenusPlus the N2P Evolution Module until 31 December 2025. The N2P Evolution Module contract value is worth approximately \$28 million.
SRG	SRG Global Secures Specialist Facades Contract for the Frankston Hospital Redevelopment valued at ~\$30m. The contract will start immediately and is expected to be complete in 2024.
MIN	Mineral Resources has amended the terms of the transactions signed with Albemarle Corporation. MinRes' share of the Wodgina lithium mine will increase to 50% and MinRes will remain the operator of the mine. Albemarle will take full ownership of the Kemerton lithium hydroxide plant, which it currently operates.

Top 5/Bottom 5 Weekly Price Change



Top 5/Bottom 5 EV/EBITDA Multiple (Latest)

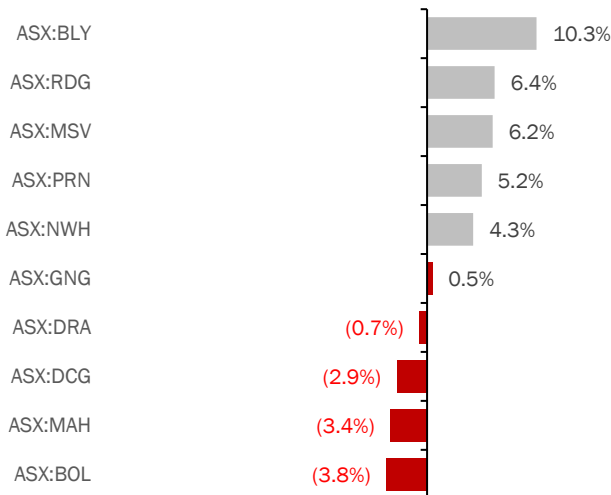


Ticker	Company Name	Market Cap (m)	Open Price	Close Price	Week High	Weekly change (%)	Volume Trend	EV/EBITDA	EV/EBIT
ASX:ACF	Acrow Formwork and Construction Serv	206	0.76	0.78	0.79	▲ 0.6%	■	7.6x	12.7x
ASX:CDD	Cardno Limited	15	0.37	0.39	0.40	▲ 2.7%	■	NM	0.5x
ASX:DOW	Downer EDI Limited	3,077	4.58	4.59	4.66	▲ 0.2%	■	9.5x	23.8x
ASX:DUR	Duratec Limited	294	1.19	1.21	1.26	▲ 1.7%	■	9.5x	13.6x
ASX:DDB	Dynamic Group Holdings Limited	38	0.26	0.28	0.28	▲ 10.0%	■	4.4x	NM
ASX:FWD	Fleetwood Limited	207	2.37	2.20	2.42	▼ -5.6%	■	12.7x	NM
ASX:GNP	GenusPlus Group Limited	213	1.10	1.20	1.22	▲ 4.3%	■	9.3x	17.1x
ASX:IPL	Incitec Pivot Limited	5,710	2.88	2.94	3.01	▲ 2.4%	■	4.5x	5.8x
ASX:JLG	Johns Lyng Group Limited	1,465	5.38	5.32	5.42	▼ -1.3%	■	14.0x	16.9x
ASX:LYL	Lycopodium Limited	402	9.81	10.07	10.18	▲ 1.7%	■	6.4x	7.2x
ASX:MGH	MAAS Group Holdings Limited	851	2.47	2.60	2.79	▲ 5.3%	■	11.4x	17.5x
ASX:MIN	Mineral Resources Limited	13,531	71.81	70.11	77.44	▼ -3.3%	■	8.5x	11.3x
ASX:SND	Saunders International Limited	123	NA	1.13	1.13	▲ 0.9%	■	6.1x	7.4x
ASX:SSM	Service Stream Limited	542	0.82	0.88	0.88	▲ 8.0%	■	12.1x	NM
ASX:SXE	Southern Cross Electrical Engineering Lir	173	0.64	0.66	0.67	▲ 2.3%	■	2.8x	3.6x
ASX:SRG	SRG Global Limited	395	0.73	0.76	0.76	▲ 6.3%	■	6.0x	10.8x
ASX:SOP	Synertec Corporation Limited	97	0.22	0.23	0.23	▼ -2.2%	■	NM	NM
ASX:VRS	Veris Limited	40	0.08	0.08	0.08	▼ -4.8%	■	3.7x	12.8x
ASX:WOR	Worley Limited	8,831	16.88	16.79	17.17	▼ -0.5%	■	15.4x	21.8x

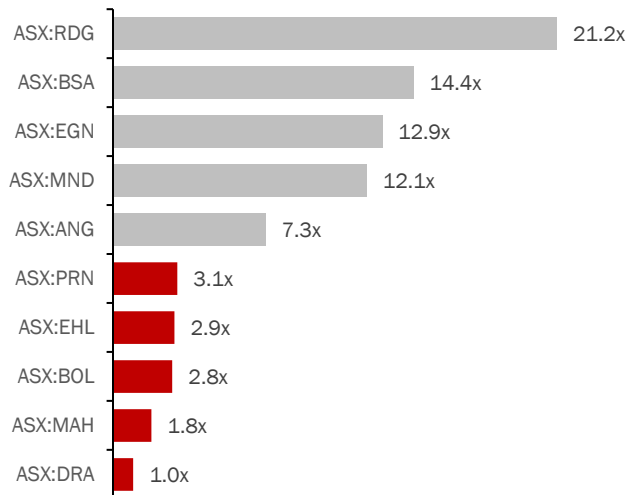
Mining Engineering Services

Ticker	News/ Event
MND	Monadelphous Group announced it has secured new contracts and contract extensions totalling approximately \$150 million. The Company has been awarded a contract with Fortescue Metals Group for the supply and construction of an overland conveyor and transfer station at the Christmas Creek mine site in the Pilbara region of Western Australia.
DCG	Decmil Group announced that its \$26.3 million equity capital raising, comprising the issue of approximately 131.4 million Redeemable Convertible Preference Shares ('RCPS') at an issue price of \$0.20 per RCPS, is fully subscribed.
NWH	NRW Holdings advised that its wholly owned subsidiary Golding Contractors has executed a Contract with the Toowoomba Regional Council (TRC) for works under the 2022 Flood Recovery Project. The contract is valued at circa \$113 million and is structured on cost reimbursable basis.

Top 5/Bottom 5 Weekly Price Change



Top 5/Bottom 5 EV/EBITDA Multiple (Latest)



Ticker	Company Name	Market Cap (m)	Open Price	Close Price	Week High	Weekly change (%)	Volume Trend	EV/EBITDA	EV/EBIT
ASX:AJL	AJ Lucas Group Limited	19	0.01	0.01	0.02	— 0.0%		NM	NM
ASX:ANG	Austin Engineering Limited	163	0.28	0.28	0.29	— 0.0%		7.3x	9.0x
ASX:BPP	Babylon Pump & Power Limited	12	0.01	0.01	0.01	— 0.0%		NM	NM
ASX:BLY	Boart Longyear Group Ltd.	473	NA	1.60	1.60	▲ 10.3%		5.1x	9.8x
ASX:BOL	Boom Logistics Limited	53	0.13	0.13	0.13	▼ -3.8%		2.8x	19.2x
ASX:BSA	BSA Limited	43	NA	0.60	0.61	— 0.0%		14.4x	NM
ASX:DDH	DDH1 Limited	379	0.93	0.97	0.99	▲ 4.3%		3.6x	6.6x
ASX:DCG	Decmil Group Limited	26	0.17	0.17	0.18	▼ -2.9%		NM	NM
ASX:DRA	DRA Global Limited	77	1.45	1.40	1.47	▼ -0.7%		1.0x	4.5x
ASX:EHL	Emeco Holdings Limited	356	0.68	0.69	0.72	▲ 1.5%		2.9x	8.1x
ASX:EGN	Engenco Limited	129	NA	0.41	0.41	— 0.0%		12.9x	42.4x
ASX:GNG	GR Engineering Services Limited	339	2.09	2.10	2.13	▲ 0.5%		5.8x	6.6x
ASX:MAH	Macmahon Holdings Limited	294	0.15	0.14	0.15	▼ -3.4%		1.8x	5.7x
ASX:MYE	Metarock Group Limited	42	0.14	0.14	0.15	▲ 3.7%		NM	NM
ASX:MSV	Mitchell Services Limited	94	0.41	0.43	0.45	▲ 6.2%		5.1x	NM
ASX:MND	Monadelphous Group Limited	1,266	12.62	13.12	13.20	▲ 4.3%		12.1x	18.6x
ASX:NWH	NRW Holdings Limited	1,191	2.54	2.64	2.73	▲ 4.3%		5.2x	8.9x
ASX:PRN	Perenti Limited	836	1.16	1.23	1.25	▲ 5.2%		3.1x	8.8x
ASX:RDG	Resource Development Group Limited	144	0.05	0.05	0.05	▲ 6.4%		21.2x	25.0x

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Thanks to Freeman Liu who oversees the publication of this weekly market update.

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