

Singapore Company Update

CSE Global

Bloomberg: CSE SP | Reuters: CSES.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Mar 2022

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BUY

Last Traded Price (1 Mar 2022): S\$0.485 (STI : 3,278.63)
Price Target 12-mth: S\$0.59 (21% upside) (Prev S\$0.60)

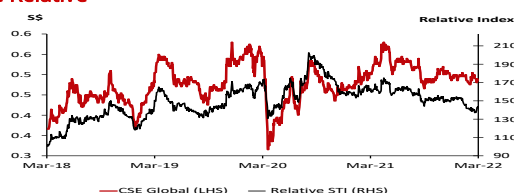
Analyst

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What's New

- FY21 net profit below expectations on lower margins
- Weak revenue from the Americas region cushioned by recovery-led growth in Asia Pacific and EMEA
- Expect higher new order wins for the Energy segment on rising US oil production along with high oil prices
- Cut earnings by 14% to 18% mainly on lower margins; maintain BUY with lower S\$0.59 TP

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	503	469	478	518
EBITDA	58.4	42.8	53.2	61.7
Pre-tax Profit	35.8	19.6	27.9	35.2
Net Profit	28.0	15.0	21.7	27.4
Net Pft (Pre Ex.)	28.0	15.1	21.7	27.4
Net Pft Gth (Pre-ex) (%)	15.4	(46.2)	44.2	26.3
EPS (S cts)	5.48	2.94	4.25	5.37
EPS Pre Ex. (S cts)	5.48	2.95	4.25	5.37
EPS Gth Pre Ex (%)	15	(46)	44	26
Diluted EPS (S cts)	5.48	2.94	4.25	5.37
Net DPS (S cts)	2.75	2.75	2.75	2.75
BV Per Share (S cts)	37.5	37.6	39.1	41.7
PE (X)	8.9	16.5	11.4	9.0
PE Pre Ex. (X)	8.8	16.5	11.4	9.0
P/Cash Flow (X)	6.2	8.4	5.8	5.5
EV/EBITDA (X)	5.0	7.0	5.2	4.2
Net Div Yield (%)	5.7	5.7	5.7	5.7
P/Book Value (X)	1.3	1.3	1.2	1.2
Net Debt/Equity (X)	0.2	0.3	0.2	0.0
ROAE (%)	15.2	7.8	11.1	13.3
Earnings Rev (%):			(18)	(14)
Consensus EPS (S cts):			4.8	5.4
Other Broker Recs:		B: 4	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Improving outlook with rising new orders

Investment Thesis

Recovery of the Energy segment. We are beginning to see signs of oil production rise in the regions that CSE is operating in, which correlates with the rising oil prices. New order wins for the Energy segment have been relatively weak; we expect this trend to reverse. Sustained levels of elevated oil prices should raise oil and gas activities and could translate into more contract wins for CSE.

New order wins continue to recover. We remain positive on CSE's recovery as new order wins from all segments continued to recover in the last four quarters. We are also optimistic on CSE's small acquisitions to enhance and strengthen its operations and recurring revenue stream as well as its pivot towards renewable energy projects (solar and wind). There is also potential for large contract wins in its Energy segment in FY22F.

Infrastructure and Mining & Mineral segments offer sturdy, stable growth. These two segments remained resilient despite the pandemic. We are expecting its Infrastructure segment to continue growing on higher government spending on infrastructure projects, and its Mining & Mineral segment to remain sturdy amidst higher commodity prices.

Valuation:

Maintain BUY with a slightly lower TP of S\$0.59 (previously S\$0.60). We cut FY22F/FY23F earnings by 14% to 18%, mainly to account for lower margins due to the still challenging environment on the back of the supply chain disruptions. Our new TP of S\$0.59 (previously S\$0.60) is pegged to a higher 13.8x (+1 SD of its four-year average PE) on FY22F earnings, (vs. 11.5x previously), on the back of the improving outlook.

Where we differ:

We are more cautious on CSE's earnings' growth.

Key Risks to Our View:

Protraction of the COVID-19 pandemic, low oil prices, global macroeconomic slowdown, and/or a lack of new order wins.

At A Glance

Issued Capital (m shrs)	512
Mkt. Cap (S\$m/US\$m)	249 / 183
Major Shareholders (%)	
Temasek Holdings Pte. Ltd	25.0
FMR LLC	10.0
Free Float (%)	65.0
3m Avg. Daily Val (US\$m)	0.10

GIC Industry : Information Technology / Software & Services



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WHAT'S NEW

FY21 net profit below expectations; better outlook with improving new order wins

Results Review

Weak revenue from the Americas region cushioned by recovery-led growth in the Asia Pacific and EMEA regions.

The weaker revenue is mainly attributed to a drop in large project revenues and lower time and material revenues in the Americas region. Revenue from the Americas region dropped 17.2% due to volatility in energy prices and the ongoing Covid-19 pandemic. Nonetheless, the drop in revenues was cushioned by recovery-led growth in the Asia Pacific and EMEA regions. Revenue from the APAC region grew 9.1% following higher recognition of revenue from infrastructure projects in Australia. Revenue from the EMEA region rose by 132.5% with contributions from new acquisitions in the UK.

FY21 net profit below expectations on lower margins.

EBITDA saw a -26.8% change y-o-y at S\$42.8m. This was largely due to higher unabsorbed labour costs and higher distribution costs, which resulted in higher operating expenses. Net margin eased to 3.2% from 5.6% in FY20, leading to a 46.2% decline in net profit to S\$15.1m, 16% below our estimates.

Proposed final dividend of 1.50 Scts/share, unchanged from FY20.

Including its interim dividend of 1.25Scts/share, CSE's total dividend per share in FY21 is 2.75Scts/share. This works out to a pay-out ratio of 218%, vs 102% in FY20.

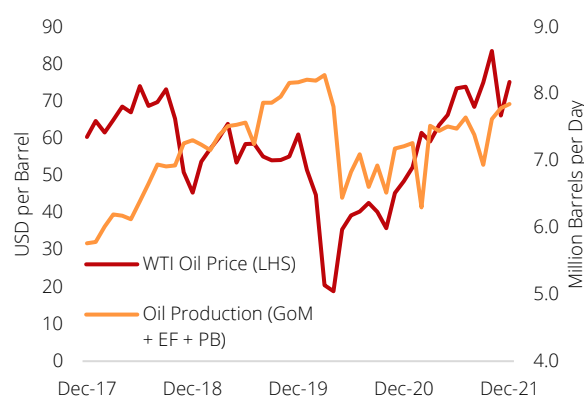
CSE's FY21 new order intake increased 7.1% y-o-y to S\$462.1m, 5% above our expectations. This was due to higher time and material jobs coupled with newly awarded power and electrification projects in its Energy segment, as well as higher orders of radio communication equipment and solutions from utility and government customers in its Infrastructure segment. The last quarter saw a strong y-o-y growth across all segments. The beat in expected new orders was mainly due to a stronger-than-anticipated recovery in its Energy segment.

Our Thoughts

Rise in US oil production, along with higher oil prices, bodes well for CSE. We are beginning to see signs of oil production rise in the regions that CSE is operating in. We believe that the positive correlation between these two datasets is starting to resume and could bode well for CSE as higher oil production have historically meant higher

revenues for its Energy segment. In our view, the significantly higher and outlook for sustained levels of elevated oil prices should raise oil and gas activities and could potentially translate into large contract wins for CSE.

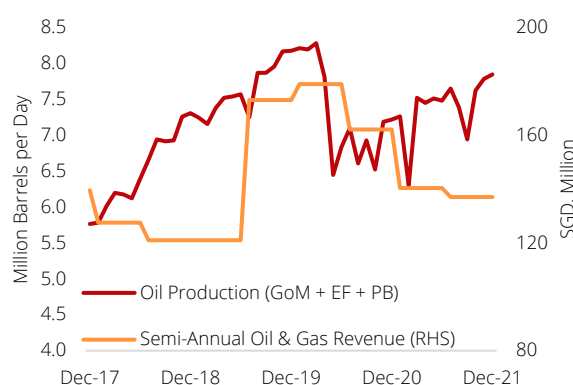
Oil production in CSE's key operating regions rises with oil prices



Source: EIA, Bloomberg Finance L.P., DBS Bank

*GoM – Gulf of Mexico; EF – Eagle Ford; PB – Permian Basin

Higher oil production in its operating regions drives revenue for CSE's Energy segment



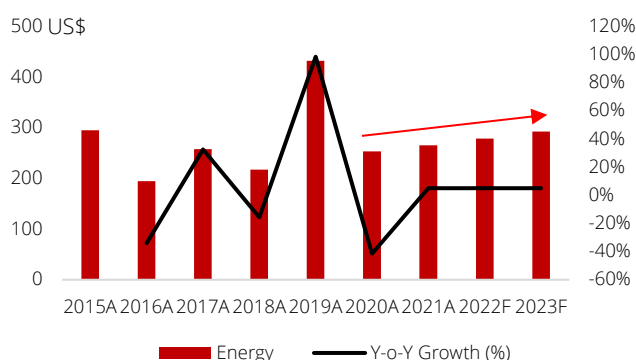
Source: EIA, Bloomberg Finance L.P., Company, DBS Bank

Expect higher new order wins for the Energy segment.

New order win for the Energy segment has been relatively weak in the last two years. The recent surge in oil prices, partly due to the current situation in Ukraine, could

present additional opportunities for the group’s Americas operations as its customers are likely to increase their investments. Hence, we expect higher new order wins for this segment. We have conservatively penciled in a 5% y-o-y growth for FY22F and FY23F.

New order wins for Energy segment



Source: Company, DBS Bank

Good start to the year with US\$57.6m contract wins. CSE has secured two major contracts worth US\$57.6m (approximately S\$78.1m) in the Americas region. These projects are expected to contribute in 2022-2024. The first major contract is for the design, engineering, fabrication, installation and integration of complex electrical and mechanical systems and solutions for the data-centre market, which is slated for execution from Q2

2022 to Q4 2023. The second major contract, which has a duration of three years, concluding on 31 December 2024, relates to the maintenance and refurbishment of building management control systems for an offshore facility.

Earnings and Recommendation

Cut earnings by 14% to 18% mainly on lower margins; maintain BUY with lower S\$0.59 TP. We have reduced our FY22F/FY23F earnings by 14% to 18%, mainly to account for lower margins due to the still challenging environment on the back of the supply chain disruptions. We expect 1H22 to be still weak, but 2H22 to see much improvement. Our new TP of S\$0.59 (previously S\$0.60) is pegged to a higher 13.8x (+1 SD of its four-year average PE) on FY22F earnings (vs 11.5x previously), on the back of the improving outlook. Maintain BUY.

Company Background

CSE Global Limited (CSE) is a systems integrator providing automation and telecom solutions to its customers in the oil & gas, mineral & mining, and environmental sectors. The company has a presence across the Americas, Australia, Asia, Europe, the Middle East, and Africa.

Interim Income Statement (\$m)

FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	247	234	234	(5.3)	(0.1)
Cost of Goods Sold	(178)	(164)	(168)	(5.7)	2.4
Gross Profit	69	70	66	(4.2)	(5.9)
Other Oper. (Exp)/Inc	(49)	(56)	(57)	17.2	2.2
Operating Profit	20	14	8	(57.2)	(38.8)
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(2)	(1)	(2)	20.6	(61.6)
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	18	13	7	(61.5)	(46.7)
Tax	(5)	(3)	(2)	(61.2)	(31.5)
Minority Interest	0	0	0	-	-
Net Profit	13	10	5	(61.8)	(51.1)
Net profit bef Except.	13	10	5	(61.7)	(51.0)
EBITDA	30	24	19	(35.6)	(18.4)
Margins (%)					
Gross Margins	27.8	29.9	28.1		
Opg Profit Margins	8.0	5.9	3.6		
Net Profit Margins	5.2	4.3	2.1		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
New Order Book Growth	51.1	(25.4)	7.09	6.83	4.29
EBIT Margins	7.05	7.82	4.76	6.19	7.10

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Oil & Gas	294	341	277	282	288
Infrastructure	115	107	144	142	177
Mining & Minerals	42.4	54.7	47.8	53.9	53.7
Total	452	503	469	478	518
EBIT (\$m)					
Oil & Gas	18.4	20.8	3.10	9.87	11.5
Infrastructure	12.9	14.7	16.0	17.0	22.1
Mining & Minerals	0.60	3.90	3.30	2.70	3.22
Total	31.8	39.4	22.4	29.6	36.8
EBIT Margins (%)					
Oil & Gas	6.2	6.1	1.1	3.5	4.0
Infrastructure	11.2	13.7	11.1	12.0	12.5
Mining & Minerals	1.4	7.1	6.9	5.0	6.0
Total	7.0	7.8	4.8	6.2	7.1

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	452	503	469	478	518
Cost of Goods Sold	(328)	(357)	(333)	(343)	(374)
Gross Profit	124	146	136	134	144
Other Opng (Exp)/Inc	(91.9)	(107)	(114)	(105)	(107)
Operating Profit	31.8	39.3	22.3	29.6	36.8
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	1.43	1.43
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.8)	(3.5)	(2.6)	(3.1)	(3.1)
Exceptional Gain/(Loss)	(0.2)	0.0	0.0	0.0	0.0
Pre-tax Profit	29.8	35.8	19.6	27.9	35.2
Tax	(6.1)	(7.8)	(4.6)	(6.1)	(7.7)
Minority Interest	0.40	0.01	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	24.1	28.0	15.0	21.7	27.4
Net Profit before Except.	24.3	28.0	15.1	21.7	27.4
EBITDA	45.4	58.4	42.8	53.2	61.7
Growth					
Revenue Gth (%)	21.0	11.3	(6.8)	1.9	8.5
EBITDA Gth (%)	30.2	28.5	(26.8)	24.4	15.8
Opg Profit Gth (%)	17.7	23.4	(43.2)	32.6	24.5
Net Profit Gth (Pre-ex) (%)	18.4	15.4	(46.2)	44.2	26.3
Margins & Ratio					
Gross Margins (%)	27.4	29.1	29.0	28.1	27.8
Opg Profit Margin (%)	7.0	7.8	4.8	6.2	7.1
Net Profit Margin (%)	5.3	5.6	3.2	4.5	5.3
ROAE (%)	13.8	15.2	7.8	11.1	13.3
ROA (%)	7.2	7.0	3.8	5.4	6.6
ROCE (%)	8.9	8.2	4.0	6.0	7.7
Div Payout Ratio (%)	58.1	50.2	93.7	64.7	51.2
Net Interest Cover (x)	17.3	11.4	8.5	9.4	12.0

Source: Company, DBS Bank

Interim Income Statement (\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	268	256	247	234	234
Cost of Goods Sold	(195)	(178)	(178)	(164)	(168)
Gross Profit	72.9	77.4	68.8	70.0	65.9
Other Oper. (Exp)/Inc	(55.2)	(57.9)	(49.0)	(56.2)	(57.4)
Operating Profit	17.7	19.5	19.8	13.8	8.47
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.3)	(1.4)	(2.0)	(1.0)	(1.6)
Exceptional Gain/(Loss)	0.70	0.0	0.0	0.0	0.0
Pre-tax Profit	17.1	18.1	17.7	12.8	6.82
Tax	(3.3)	(3.0)	(4.8)	(2.7)	(1.9)
Minority Interest	0.01	0.00	0.00	0.00	0.0
Net Profit	13.8	15.1	12.9	10.1	4.93
Net profit bef Except.	13.1	15.1	12.9	10.1	4.95
EBITDA	26.0	28.6	29.8	23.6	19.2

Growth

Revenue Gth (%)	45.9	(4.7)	(3.3)	(5.2)	(0.1)
EBITDA Gth (%)	33.1	10.1	4.4	(21.1)	(18.4)
Opg Profit Gth (%)	25.1	10.4	1.2	(30.0)	(38.8)
Net Profit Gth (%)	35.4	9.1	(14.4)	(21.8)	(51.1)

Margins

Gross Margins (%)	27.2	30.3	27.8	29.9	28.1
Opg Profit Margins (%)	6.6	7.6	8.0	5.9	3.6
Net Profit Margins (%)	5.2	5.9	5.2	4.3	2.1

Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	72.1	84.8	83.6	76.0	67.1
Invts in Associates & JVs	0.10	0.22	0.23	0.23	0.23
Other LT Assets	62.7	62.2	63.4	58.8	54.2
Cash & ST Invts	50.7	49.4	45.5	59.6	80.8
Inventory	21.7	26.1	29.3	28.6	31.1
Debtors	128	109	96.6	105	114
Other Current Assets	61.2	70.2	78.9	78.9	78.9
Total Assets	396	402	398	407	426
ST Debt	69.4	65.0	47.9	47.9	47.9
Creditor	71.5	68.1	59.1	65.6	71.5
Other Current Liab	32.0	28.0	29.2	29.2	29.2
LT Debt	33.7	26.5	47.5	42.5	42.5
Other LT Liabilities	13.5	22.6	21.8	21.8	21.8
Shareholder's Equity	176	192	192	200	213
Minority Interests	(0.1)	(0.1)	0.0	0.0	0.0
Total Cap. & Liab.	396	402	398	407	426
Non-Cash Wkg. Capital	107	109	116	117	123
Net Cash/(Debt)	(52.5)	(42.1)	(49.9)	(30.8)	(9.6)
Debtors Turn (avg days)	84.7	86.0	80.0	76.9	76.9
Creditors Turn (avg days)	67.3	75.5	74.3	70.9	71.4
Inventory Turn (avg days)	22.1	25.8	32.3	32.9	31.1
Asset Turnover (x)	1.4	1.3	1.2	1.2	1.2
Current Ratio (x)	1.5	1.6	1.8	1.9	2.0
Quick Ratio (x)	1.0	1.0	1.0	1.2	1.3
Net Debt/Equity (X)	0.3	0.2	0.3	0.2	0.0
Net Debt/Equity ex MI (X)	0.3	0.2	0.3	0.2	0.0
Capex to Debt (%)	69.0	8.0	10.0	11.1	11.1
Z-Score (X)	2.7	3.0	3.0	2.5	2.5

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	29.8	35.8	19.6	27.9	35.2
Dep. & Amort.	13.6	19.1	20.5	22.2	23.4
Tax Paid	(4.7)	(6.6)	(4.9)	(6.1)	(7.7)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(26.6)	(10.8)	(6.6)	(0.9)	(5.6)
Other Operating CF	(0.3)	2.58	0.77	0.0	0.0
Net Operating CF	11.8	40.1	29.4	43.1	45.3
Capital Exp.(net)	(71.2)	(7.3)	(9.6)	(10.0)	(10.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(14.1)	(2.4)	(5.9)	0.0	0.0
Net Investing CF	(85.3)	(9.6)	(15.5)	(10.0)	(10.0)
Div Paid	(14.0)	(14.1)	(14.1)	(14.1)	(14.1)
Chg in Gross Debt	67.0	(11.4)	3.28	(5.0)	0.0
Capital Issues	(2.1)	0.0	(1.4)	0.0	0.0
Other Financing CF	0.0	(6.6)	(5.8)	0.0	0.0
Net Financing CF	50.9	(32.1)	(18.0)	(19.1)	(14.1)
Currency Adjustments	(0.9)	0.40	0.22	0.0	0.0
Chg in Cash	(23.4)	(1.3)	(3.9)	14.0	21.2
Opg CFPS (S cts)	7.57	9.97	7.04	8.60	9.95
Free CFPS (S cts)	(11.7)	6.42	3.87	6.47	6.90

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	21 May 21	0.52	0.63	BUY
2:	13 Aug 21	0.52	0.61	BUY
3:	15 Nov 21	0.51	0.60	BUY

Source: DBS Bank

Analyst: Lee Keng LING

Singapore Research Team

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

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