

COMPANY RESULTS

CSE Global (CSE SP)

2021: Results Below Expectations; Cautious Outlook For Energy Segment

2021 earnings of S\$15m (-46% yoy) were below expectations, forming 65% of our estimate, mainly due to weaker revenue from the Americas region, which was further impacted by unabsorbed labour cost. CSE expects a steady stream of projects for the infrastructure and mining & minerals segments but remains cautious on the energy front. Weaker revenue from the segment coupled with higher operating cost could continue to weigh on earnings. Downgrade to HOLD with lower target price of S\$0.44.

2021 RESULTS

Year to 31 Dec (S\$m)	2021	2020	yoy % chg
Revenue	468.7	502.8	(6.8)
EBITDA	42.8	58.4	(26.8)
Net profit	15.0	28.0	(46.4)
New orders received	462.1	431.5	7.1
Outstanding orders	229.4	236.0	(2.8)

Source: CSE, UOB Kay Hian

RESULTS

- Earnings below expectations due to weaker energy revenue and higher operating cost.** CSE Global's (CSE) 2021 earnings fell short of our expectations at 65% of our full-year estimate. Revenue fell 6.8% yoy, mainly due to a decline in large project revenues and lower time and material revenues in the Americas region (-17.2% yoy). On the flip side, its business in the Asia Pacific region reached record levels of S\$184m (+9.1% yoy) from higher revenue from infrastructure projects in Australia. Similarly, revenue in the EMEA region rose to S\$12.2m, up from S\$5.2m in 2020. While gross margin remained stable, net margin declined by 2.4ppt to 3.2% due to higher selling & distribution cost and unabsorbed labour cost.
- Order intake led mainly by infrastructure segment.** Order intake increased 7.1% to S\$462m, led by the 24% yoy increase in order intake from the infrastructure segment. The group also announced that it has secured two major contracts worth approximately S\$78m in the Americas region. Revenue contribution will be over a period of between two to three years. 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 2Q22 to 4Q23 while the second contract which has a duration of three years will conclude at end-24.
- Cautious outlook for the energy sector.** CSE anticipates stable financial performance in the infrastructure and mining & minerals segments, bolstered by a steady stream of projects driven by requirements in digitalisation and enhancements in physical and cyber security. The energy segment could however pose challenges if the trend of fewer large projects in 2021 continues into 2022. Weaker revenue coupled with higher operating cost in the segment could weigh on the group's earnings. That said, the recent surge in oil prices presents additional opportunities as customers may increase their investments.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	503	469	500	504	517
EBITDA	50	35	41	45	50
Operating profit	37	20	24	27	30
Net profit (rep./act.)	28	15	17	19	22
Net profit (adj.)	26	15	17	19	22
EPS (S\$ cent)	5.2	2.9	3.4	3.7	4.3
PE (x)	9.4	16.6	14.3	12.9	11.3
P/B (x)	1.3	1.3	1.3	1.2	1.2
EV/EBITDA (x)	5.7	8.2	6.9	6.4	5.7
Dividend yield (%)	5.7	5.7	5.7	5.7	5.7
Net margin (%)	5.6	3.2	3.5	3.8	4.3
Net debt/(cash) to equity (%)	20.3	25.5	19.4	11.8	3.6
Interest cover (x)	14.5	13.2	18.8	23.4	30.2
ROE (%)	15.2	7.8	9.0	9.8	10.9
Consensus net profit	-	-	26	29	-
UOBKH/Consensus (x)	-	-	0.66	0.67	-

Source: CSE Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	S\$0.485
Target Price	S\$0.440
Upside	-9.3%
(Previous TP)	S\$0.590

COMPANY DESCRIPTION

CSE Global Limited provides systems integration and information technology solutions, computer network systems, and industrial automation. The company also designs, manufactures, and installs management information systems. CSE Global develops, manufactures, and sells electronic and micro-processor monitoring equipment.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	CSE SP
Shares issued (m):	512.4
Market cap (S\$m):	248.5
Market cap (US\$m):	183.6
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

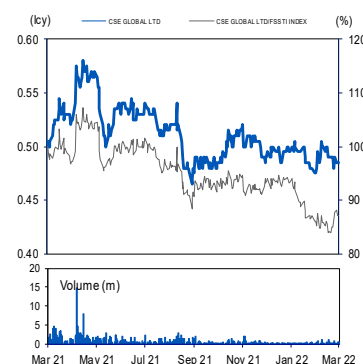
52-week high/low S\$0.580/S\$0.465

1mth	3mth	6mth	1yr	YTD
2.1	(1.0)	1.0	(4.0)	(2.0)

Major Shareholders

	%
Temasek Holdings	25.0
FMR LLC	10.0
FY22 NAV/Share (S\$)	0.38
FY22 Net Debt/Share (S\$)	0.07

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
 +65 6590 6623
 johncheong@uobkayhian.com

STOCK IMPACT

- **Infrastructure resilient against the pandemic.** Despite the impact from the COVID-19 pandemic, CSE's infrastructure segment saw its 2021 order intake growing 24% yoy. Earnings momentum from these segments should be sustained with greater order intake and growing orderbook, supported by increasing requirements for digitalisation and enhancements in physical and cyber security.
- **Dividend yield is attractive at 5.7%.** We expect the group to maintain its full-year dividend at 2.75 S cents/share for 2022, translating into an above-average dividend yield of 5.7% vs the FSSTI's of around 4.0%.

EARNINGS REVISION/RISK

- We lower our 2022 and 2023 earnings forecasts by 35% and 33% respectively as we trim our order intake forecast and raise operating cost to account for lower operating margins in the oil and gas segment. We now expect earnings growth of 16% and 11% in 2022 and 2023 respectively.
- We also introduce 2024 earnings of S\$22m.

VALUATION/RECOMMENDATION

- **Downgrade to HOLD with a 25% lower PE-based target price of S\$0.44**, pegged to 13x 2022 PE (+1SD above mean). Our downgrade comes as we account for a more cautious outlook on the oil and gas segment and potentially higher operating costs. Our target price implies a dividend yield of 6.3%.

SHARE PRICE CATALYST

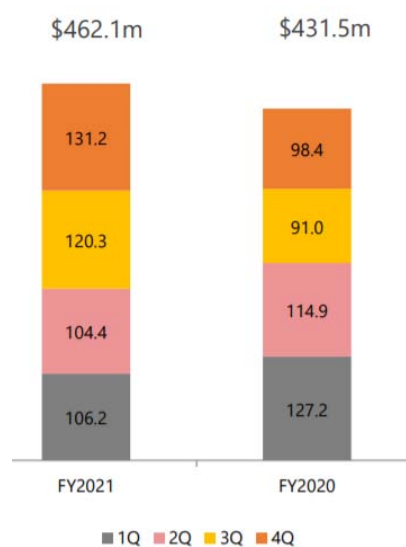
- Large greenfield O&G and infrastructure project wins.
- Recovery in oil prices.
- Accretive acquisitions.

GLOBAL FORWARD PE BAND SINCE 2016



Source: Bloomberg, UOB Kay Hian

QUARTERLY ORDER INTAKE



Source: CSE

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	468.7	499.9	503.6	516.9
EBITDA	34.8	41.4	45.2	50.2
Deprec. & amort.	14.7	16.9	18.5	20.1
EBIT	20.1	24.5	26.7	30.1
Total other non-operating income	2.1	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(2.6)	(2.2)	(1.9)	(1.7)
Pre-tax profit	19.6	22.3	24.8	28.5
Tax	(4.6)	(4.9)	(5.5)	(6.3)
Minorities	(0.0)	0.0	0.0	0.0
Net profit	15.0	17.4	19.3	22.2
Net profit (adj.)	15.0	17.4	19.3	22.2

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	62.0	57.2	52.1	45.6
Other LT assets	85.2	80.4	75.5	70.6
Cash/ST investment	46.5	9.8	10.8	27.3
Other current assets	203.8	217.0	218.6	224.2
Total assets	397.5	364.3	357.0	367.8
ST debt	47.9	41.2	34.5	34.8
Other current liabilities	88.3	101.5	102.2	104.6
LT debt	47.5	6.4	0.0	0.0
Other LT liabilities	21.8	19.2	19.2	19.2
Shareholders' equity	192.0	195.2	200.4	208.4
Minority interest	(0.0)	0.7	0.7	0.7
Total liabilities & equity	397.5	364.3	357.0	367.8

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	29.4	40.1	42.7	44.8
Pre-tax profit	19.6	22.3	24.8	28.5
Tax	(4.9)	(4.9)	(5.5)	(6.3)
Deprec. & amort.	14.7	16.9	18.5	20.1
Associates	0.0	0.0	0.0	0.0
Working capital changes	(6.6)	(0.1)	(0.9)	(3.2)
Non-cash items	(0.2)	0.0	0.0	0.0
Other operating cashflows	6.8	5.8	5.8	5.8
Investing	(15.5)	(14.8)	(14.4)	(14.5)
Capex (growth)	(9.8)	(9.0)	(8.5)	(8.7)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.7	0.0	0.0	0.0
Others	(6.4)	(5.8)	(5.8)	(5.8)
Financing	(18.0)	(62.0)	(27.3)	(13.9)
Dividend payments	(14.1)	(14.2)	(14.2)	(14.2)
Proceeds from borrowings	0.0	(47.8)	(13.1)	0.3
Loan repayment	(2.6)	0.0	0.0	0.0
Others/interest paid	(1.4)	0.0	0.0	0.0
Net cash inflow (outflow)	(4.1)	(36.7)	1.1	16.5
Beginning cash & cash equivalent	49.4	46.5	9.8	10.8
Changes due to forex impact	0.2	0.0	0.0	0.0
Ending cash & cash equivalent	46.5	9.8	10.8	27.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	7.4	8.3	9.0	9.7
Pre-tax margin	4.2	4.5	4.9	5.5
Net margin	3.2	3.5	3.8	4.3
ROA	3.8	4.6	5.4	6.1
ROE	7.8	9.0	9.8	10.9
Growth				
Turnover	(6.8)	6.7	0.7	2.6
EBITDA	(30.5)	19.0	9.1	11.0
Pre-tax profit	(45.2)	13.6	11.2	14.8
Net profit	(46.4)	15.9	11.2	14.8
Net profit (adj.)	(43.1)	15.9	11.2	14.8
EPS	(43.3)	15.9	10.4	14.8
Leverage				
Debt to total capital	33.2	19.5	14.6	14.3
Debt to equity	49.7	24.4	17.2	16.7
Net debt/(cash) to equity	25.5	19.4	11.8	3.6
Interest cover (x)	13.2	18.8	23.4	30.2