

# 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

16 Aug 2022

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**HOLD** (Downgrade from BUY)

Last Traded Price (15 Aug 2022): S\$0.470 (STI : 3,256.82)  
Price Target 12-mth: S\$0.45 (4% downside) (Prev S\$0.59)

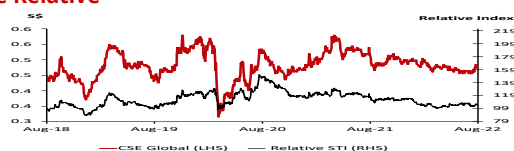
### Analyst

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### What's New

- Order intake in 1H22 soared 100.3% to S\$421.7m (vs S\$210.6m in 1H21)
- 1H22 net profit fell by 55% y-o-y to S\$4.5m (vs S\$10.1m in 1H21)
- Supply chain disruptions are still likely to exert pressure on margins; FY22/FY23 gross margin estimates cut to 27.2% and 27.7%
- Downgrade to HOLD with a lower TP of S\$0.45

### Price Relative



### Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	503	469	550	573
EBITDA	58.4	42.8	43.1	54.9
Pre-tax Profit	35.8	19.6	17.7	28.4
Net Profit	28.0	15.0	13.8	22.2
Net Pft (Pre Ex.)	28.0	15.1	13.8	22.2
Net Pft Gth (Pre-ex) (%)	15.4	(46.2)	(8.6)	60.8
EPS (S cts)	5.48	2.93	2.69	4.33
EPS Pre Ex. (S cts)	5.48	2.94	2.69	4.33
EPS Gth Pre Ex (%)	15	(46)	(9)	61
Diluted EPS (S cts)	5.48	2.93	2.69	4.33
Net DPS (S cts)	2.75	2.75	2.75	2.75
BV Per Share (S cts)	37.5	37.5	37.4	39.0
PE (X)	8.6	16.0	17.5	10.9
PE Pre Ex. (X)	8.6	16.0	17.5	10.9
P/Cash Flow (X)	6.0	8.2	9.5	5.7
EV/EBITDA (X)	4.8	6.8	6.7	4.9
Net Div Yield (%)	5.9	5.9	5.9	5.9
P/Book Value (X)	1.3	1.3	1.3	1.2
Net Debt/Equity (X)	0.2	0.3	0.3	0.2
ROAE (%)	15.2	7.8	7.2	11.3
Earnings Rev (%)			(37)	(19)
Consensus EPS (S cts)			3.4	4.3
Other Broker Recs:		B: 2	S: 0	H: 1

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

## Hold on tight amid supply chain disruptions

### Investment Thesis:

New order wins continue to recover but order deliveries hampered by supply chain disruptions. We remain positive on CSE's recovery as new order wins from all segments continued to recover. Order intake surged 100.3% to S\$421.7m on robust growth across all three segments. However, supply chain constraints continue to persist, hence pressure on margin continues.

**Infrastructure and Mining & Mineral segments offer sturdy, stable growth.** 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.

**Recovery of the Energy segment.** Except for the absence of large greenfield projects in the traditional energy segment, there has been an improvement in flow orders. Renewables also represents a growing opportunity on higher demand for projects comprising solar and wind energy. In 2Q22, CSE managed to secure a large greenfield order relating to renewables for the installation and integration of solar power systems.

### Valuation:

Downgrade to HOLD with a lower TP of S\$0.45 (previously S\$0.59). We reduced FY22F/FY23F earnings by 37% to 19%, mainly to account for lower margins due to the still challenging environment on the back of supply chain disruptions. Our new TP of S\$0.45 is pegged to 16.8x (+1 SD of its four-year average PE) on FY22F earnings, (vs. 13.8x previously), on the back of a generally 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)	241 / 176
Major Shareholders (%)	
Temasek Holdings Pte. Ltd	25.0
FMR LLC	10.0
Free Float (%)	65.0
3m Avg. Daily Val (US\$m)	0.08
GIC Industry : Information Technology / Software & Services	



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## WHAT'S NEW

### Order deliveries strong but supply chains face disruptions

#### Results Review

1H22 revenue stood at \$262.2m, 11.8% higher y-o-y. This represents 55% of our full year forecasts. The higher revenues can be ascribed to a 47.9% growth in infrastructure revenues in Australia and the Americas region. Revenue from the Energy segment declined by 7.4% y-o-y due to lower contributions from large projects. The mining and minerals segment grew 18.4% y-o-y on the back of stable commodity prices and higher mining activities.

1H22 net profit declined by 55% y-o-y to S\$4.5m (vs S\$10.1m in 1H21), below expectations due to supply chain disruptions, changes in the sales mix and higher operating expenses. 1H22 net profit only amounted to 21% of our full year forecasts. Gross margins came in 2.1 percentage points lower at 27.8% owing to (i) a change in sales mix with higher revenues from the lower-margin energy sector, and (ii) lower margins of new infrastructure projects. CSE also reported lower net margins of 1.7% (vs 4.3% in 1H21) which was negatively impacted mainly by higher operating expenses from the newly acquired subsidiaries (+S\$2.7m), increased staffing costs (+S\$1.8m), selling & distribution expenses (+S\$1.8m), and upkeep of building and equipment cost (+S\$1.1m). The higher personnel costs can be attributed to unabsorbed labour costs as CSE expanded its technical workforce to meet the demands of new orders. Overall operating expenses increased by 13.7% y-o-y, which was higher than the 11.8% y-o-y increase in revenue, resulting in lower margins. We should expect an improvement in margins when supply chain disruption eases.

#### Key highlights

S\$m	1H22	1H21	Yoy change (%)
Revenue	262.2	234.5	11.8%
Gross profit	72.8	70.0	4.0%
Gross margin (%)	27.8%	29.9%	-2.1ppts
Operating expenses	65.5	57.6	13.7%
EBITDA	18.0	23.6	-23.5%
Net profit	4.5	10.1	-55.0%
Net margin (%)	1.7%	4.3%	-2.6ppts
New order intake	421.7	210.6	100.3%
Outstanding orders	388.9	212.1	83.4%

Source: Company, DBS Bank

#### Segmental Revenues

S\$m	1H22	1H21	Yoy change (%)
Energy - Onshore	59.8	72.0	-16.9%
Energy - Offshore	70.2	68.3	2.7%
Infrastructure	103.9	70.3	47.9%
Mining & Minerals	28.2	23.9	18.4%
Total	262.2	234.5	11.8%

Source: Company, DBS Bank

Order intake in 1H22 soared 100.3% to S\$421.7m (vs S\$210.6m in 1H21). Robust growth was recorded across all three segments, led by the energy sector which recorded 124.0% y-o-y growth to S\$238.3m (vs 106.4m in 1H21). As at 2Q22, CSE's orderbook stood at S\$388.9m (vs S\$344.0m in 1Q22).

#### Order Intake by segment

S\$m	1H22	1H21	Yoy change (%)
Energy	238.3	106.4	124.0%
Infrastructure	153.7	79.7	92.9%
Mining & Minerals	29.8	24.5	21.6%
Total	421.7	210.6	100.3%

Source: Company, DBS Bank

Interim dividend of 1.25 Scts/share declared in 1H22 (vs 1.25 Scts/share in 1H21)

#### Outlook

Outlook more promising except for the absence of large greenfield projects in the traditional energy sector.

Generally, the energy sector is still highly disciplined with their capital expenditure, resulting in fewer large greenfield projects in 1H22. This is likely to continue into the second half which could dampen revenue contributions from the energy sector. However, recovery in the flow business and new business opportunities in renewables should help to cushion the lower contributions from large greenfield projects. The infrastructure and mining & minerals sector will be bolstered by steady flow of projects as it leverages on

**CSE Global**

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trends such as digitalization and advancements in physical and cyber security.

**Confident of a better 2H22 despite supply chain disruptions.** Supply chain issues have resulted in project delays and higher costs of executing projects which has led to lower gross margins. Nonetheless, the robust orders point to a healthy pipeline and CSE is sanguine about the second half of the year. We also think that the second half could be brighter as the strong order wins could mitigate the unfavourable impact from the supply chain disruptions. The execution of recent contract wins is also likely to be backloaded in 2H22 and FY23, which could boost business performance going forward.

**Nonetheless, supply chain disruptions are still likely to exert pressure on margins.** There is still a lot of uncertainty surrounding the supply chain disruptions, hence we have reduced our FY22/FY23F gross margin estimates to 27.2% and 27.7% (vs 28.7% and 28.6% previously)

**Growth of the communications business through two new acquisitions.** CSE has acquired a 100% share of DTS solutions and General Communications (Gencom). DTS was acquired for S\$4.7m and is involved in providing event hire and technical services as well as radio communication sales in the United Kingdom. Gencom, located in Australia, was acquired for a consideration of S\$8.1m and primarily provides radio communication sales, installation, and services. The acquisition of DTS will enable CSE to grow its communication systems business

in the United Kingdom while the acquisition of Gencom will enable CSE to expand its telecommunications business in Australia. We think that contributions from these acquisitions is not likely to be material, however it is aligned to CSE's acquisition strategy to build up its adjacent and complementary capabilities.

**Downgrade to HOLD with a lower TP of S\$0.45 (previously S\$0.59).** We raised FY22/FY23F revenues by 15% and 10% on account of the strong order wins. We reduced FY22F/FY23F earnings by 37% to 19%, 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\$0.45 (previously S\$0.59) is pegged to 16.8x (+1 SD of its four-year average PE) on FY22F earnings, (vs. 13.8x previously), on the back of a generally improving outlook.

**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.

## CSE Global

## Interim Income Statement (S\$m)

FY Dec	1H2021	2H2021	1H2022	% chg yoy	% chg hoh
Revenue	234	234	262	11.8	11.9
Cost of Goods Sold	(164)	(168)	(189)	15.2	12.5
<b>Gross Profit</b>	<b>70</b>	<b>66</b>	<b>73</b>	<b>4.0</b>	<b>10.5</b>
Other Oper. (Exp)/Inc	(56)	(57)	(64)	14.8	12.3
<b>Operating Profit</b>	<b>14</b>	<b>8</b>	<b>8</b>	<b>(39.9)</b>	<b>(1.8)</b>
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(1)	(2)	(2)	(71.8)	(6.3)
Exceptional Gain/(Loss)	0	0	0	-	-
<b>Pre-tax Profit</b>	<b>13</b>	<b>7</b>	<b>7</b>	<b>(48.7)</b>	<b>(3.6)</b>
Tax	(3)	(2)	(2)	(25.8)	8.4
Minority Interest	0	0	0	-	-
<b>Net Profit</b>	<b>10</b>	<b>5</b>	<b>5</b>	<b>(55.1)</b>	<b>(8.1)</b>
Net profit bef Except.	10	5	5	(55.3)	(8.9)
EBITDA	24	19	18	(23.6)	(6.5)
<b>Margins (%)</b>					
Gross Margins	29.9	28.1	27.8		
Opg Profit Margins	5.9	3.6	3.2		
Net Profit Margins	4.3	2.1	1.7		

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

**CSE Global**
**Income Statement (\$m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	452	503	469	550	573
Cost of Goods Sold	(328)	(357)	(333)	(401)	(414)
<b>Gross Profit</b>	<b>124</b>	<b>146</b>	<b>136</b>	<b>150</b>	<b>159</b>
Other Opng (Exp)/Inc	(91.9)	(107)	(114)	(129)	(127)
<b>Operating Profit</b>	<b>31.8</b>	<b>39.3</b>	<b>22.3</b>	<b>20.8</b>	<b>31.5</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.02	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	(0.1)	0.0	0.0
<b>Pre-tax Profit</b>	<b>29.8</b>	<b>35.8</b>	<b>19.6</b>	<b>17.7</b>	<b>28.4</b>
Tax	(6.1)	(7.8)	(4.6)	(3.9)	(6.3)
Minority Interest	0.40	0.01	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>24.1</b>	<b>28.0</b>	<b>15.0</b>	<b>13.8</b>	<b>22.2</b>
Net Profit before Except.	24.3	28.0	15.1	13.8	22.2
EBITDA	45.4	58.4	42.8	43.1	54.9
<b>Growth</b>					
Revenue Gth (%)	21.0	11.3	(6.8)	17.4	4.0
EBITDA Gth (%)	30.2	28.5	(26.7)	0.6	27.5
Opg Profit Gth (%)	17.7	23.4	(43.2)	(6.6)	51.2
Net Profit Gth (Pre-ex) (%)	18.4	15.4	(46.2)	(8.6)	60.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	27.4	29.1	29.0	27.2	27.7
Opg Profit Margin (%)	7.0	7.8	4.8	3.8	5.5
Net Profit Margin (%)	5.3	5.6	3.2	2.5	3.9
ROAE (%)	13.8	15.2	7.8	7.2	11.3
ROA (%)	7.2	7.0	3.8	3.4	5.3
ROCE (%)	8.9	8.2	4.1	3.5	6.2
Div Payout Ratio (%)	58.1	50.2	93.8	102.2	63.5
Net Interest Cover (x)	17.3	11.4	8.5	6.6	10.3

Source: Company, DBS Bank

## CSE Global

## Interim Income Statement (\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	256	247	234	234	262
Cost of Goods Sold	(178)	(178)	(164)	(168)	(189)
<b>Gross Profit</b>	<b>77.4</b>	<b>68.8</b>	<b>70.0</b>	<b>65.9</b>	<b>72.8</b>
Other Oper. (Exp)/Inc	(57.9)	(49.0)	(56.2)	(57.4)	(64.5)
<b>Operating Profit</b>	<b>19.5</b>	<b>19.8</b>	<b>13.8</b>	<b>8.47</b>	<b>8.32</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.02	0.0
Net Interest (Exp)/Inc	(1.4)	(2.0)	(1.0)	(1.6)	(1.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.01
<b>Pre-tax Profit</b>	<b>18.1</b>	<b>17.7</b>	<b>12.8</b>	<b>6.82</b>	<b>6.57</b>
Tax	(3.0)	(4.8)	(2.7)	(1.9)	(2.0)
Minority Interest	0.00	0.00	0.00	0.0	0.0
<b>Net Profit</b>	<b>15.1</b>	<b>12.9</b>	<b>10.1</b>	<b>4.93</b>	<b>4.53</b>
Net profit bef Except.	15.1	12.9	10.1	4.97	4.53
EBITDA	28.6	29.8	23.6	19.2	18.0

## Growth

Revenue Gth (%)	(4.7)	(3.3)	(5.2)	(0.1)	11.9
EBITDA Gth (%)	10.1	4.4	(21.1)	(18.3)	(6.5)
Opg Profit Gth (%)	10.4	1.2	(30.0)	(38.8)	(1.8)
Net Profit Gth (%)	9.1	(14.4)	(21.8)	(51.1)	(8.1)

## Margins

Gross Margins (%)	30.3	27.8	29.9	28.1	27.8
Opg Profit Margins (%)	7.6	8.0	5.9	3.6	3.2
Net Profit Margins (%)	5.9	5.2	4.3	2.1	1.7

## 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	41.8	59.9
Inventory	21.7	26.1	29.3	33.3	34.4
Debtors	128	109	96.6	121	126
Other Current Assets	61.2	70.2	78.9	78.9	78.9
<b>Total Assets</b>	<b>396</b>	<b>402</b>	<b>398</b>	<b>410</b>	<b>420</b>
ST Debt	69.4	65.0	47.9	47.9	47.9
Creditor	71.5	68.1	59.1	76.6	79.1
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	192	200
Minority Interests	(0.1)	(0.1)	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>396</b>	<b>402</b>	<b>398</b>	<b>410</b>	<b>420</b>
Non-Cash Wkg. Capital	107	109	116	127	130
Net Cash/(Debt)	(52.5)	(42.1)	(49.9)	(48.5)	(30.5)
Debtors Turn (avg days)	84.7	86.0	80.0	72.0	78.5
Creditors Turn (avg days)	67.3	75.5	74.3	65.4	72.8
Inventory Turn (avg days)	22.1	25.8	32.3	30.2	31.7
Asset Turnover (x)	1.4	1.3	1.2	1.4	1.4
Current Ratio (x)	1.5	1.6	1.8	1.8	1.9
Quick Ratio (x)	1.0	1.0	1.0	1.1	1.2
Net Debt/Equity (X)	0.3	0.2	0.3	0.3	0.2
Net Debt/Equity ex MI (X)	0.3	0.2	0.3	0.3	0.2
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

## CSE Global

## Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	29.8	35.8	19.6	17.7	28.4
Dep. & Amort.	13.6	19.1	20.5	22.2	23.4
Tax Paid	(4.7)	(6.6)	(4.9)	(3.9)	(6.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(26.6)	(10.8)	(6.6)	(10.6)	(3.5)
Other Operating CF	(0.3)	2.58	0.78	0.0	0.0
<b>Net Operating CF</b>	<b>11.8</b>	<b>40.1</b>	<b>29.4</b>	<b>25.4</b>	<b>42.2</b>
Capital Exp.(net)	(71.2)	(7.3)	(9.6)	(10.0)	(10.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs 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
<b>Net Investing CF</b>	<b>(85.3)</b>	<b>(9.6)</b>	<b>(15.5)</b>	<b>(10.0)</b>	<b>(10.0)</b>
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
<b>Net Financing CF</b>	<b>50.9</b>	<b>(32.1)</b>	<b>(18.0)</b>	<b>(19.1)</b>	<b>(14.1)</b>
Currency Adjustments	(0.9)	0.40	0.22	0.0	0.0
Chg in Cash	(23.4)	(1.3)	(3.9)	(3.7)	18.1
Opg CFPS (S cts)	7.57	9.97	7.02	7.03	8.90
Free CFPS (S cts)	(11.7)	6.42	3.86	3.01	6.28

Source: Company, DBS Bank

## Target Price &amp; Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Nov 21	0.51	0.60	BUY
2:	02 Mar 22	0.48	0.59	BUY

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

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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