

Singapore

ADD (no change)

Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price:	S\$0.43
Target price:	S\$0.62
Previous target:	S\$0.57
Up/downside:	44.2%
CGSI / Consensus:	na
Reuters:	CSES.SI
Bloomberg:	CSE SP
Market cap:	US\$196.8m
	S\$264.4m
Average daily turnover:	US\$0.29m
	S\$0.39m
Current shares o/s:	533.5m
Free float:	71.4%

*Source: Bloomberg

Key changes in this note

- FY24-25F core EPS lowered by 1-3% as we slightly raise our interest expenses and fine-tune our OPM assumptions.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.9	2.4	22.9
Relative (%)	5	0.1	26.2

Major shareholders	% held
Temasek Holdings	25.0
FMR LLC	10.0
Lim Boon Kheng	2.6

Analyst(s)



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CSE Global

Sitting on a large Infra order book

- 2H23 net profit rebounded strongly to S\$11m (2H22: S\$0.2m), with EBIT growth (+272% yoy) partially offset by higher interest costs (+47% yoy).
- CSE expects a yoy net profit growth in FY24F. Growing mix of Infrastructure projects should drive FY24-26F OPM margin expansion, in our view.
- Reiterate Add on strong earnings outlook and decent 6.4% yield. Our TP is raised to S\$0.62 as we rollover to 12x CY25F (FY12-19 average).

Strong yoy earnings rebound, FY23 DPS unchanged at 2.75 Scts

CSE's 2H23 net profit of S\$11.5m (2H22: S\$0.2m) was in line, with FY23 net profit of S\$23m (+372% yoy) forming 100% of our and 105% of Bloomberg consensus' full-year forecasts. 2H23 revenue grew robustly to S\$376m (+8% hoh, +27% yoy) on quicker project executions across US and Asia. EBIT rebounded to S\$20m (flat hoh, +268% yoy), driven by 1) turnaround of loss-making Energy business following restructuring, and 2) Infrastructure (Infra) margin expansion from stronger operating leverage. CSE proposed a final DPS of 1.50 Scts, with FY23 DPS holding steady at 2.75 Scts (unchanged yoy).

Ending the year with c.\$1bn in order wins

4Q23 order wins were strong at S\$300m (flat qoq, +24% yoy), led mostly by surging infra wins (-3% qoq, +55% yoy) from two major electrification contracts (worth a combined S\$151m) won in the US, while energy order wins declined (+5% qoq, -29% yoy). This brought FY23 order wins to S\$990m (+21% yoy), in line with CSE's guidance of c.\$1bn.

Strong revenue visibility, longer-term margin expansion

CSE shared that equipment lead times have improved slightly yoy, while current headcount is sufficient barring exceptionally strong order wins. Backed by a record high order book, CSE sees net profit growth in FY24F. We expect strong FY24F revenue growth of 16% yoy, premised on quicker order book executions from shorter lead times and ramp-up in US Infra business. With a good bulk of Infra orders set to be executed in FY24F, we expect Infra revenue to rise to c.53% (FY23: 47%) of group revenue, driving OPM expansion given the higher-margin nature of Infra contracts, in our view. While we expect interest costs to stay elevated and peak in FY24F, we see room for CSE to lower its net gearing (FY23: 0.35x) on the back of healthy operating cashflows.

Reiterate Add with a higher TP of S\$0.62, yield decent at 6.4%

We cut our FY24-25F core EPS by 1-3% on slightly higher interest expense assumptions. Reiterate Add as we like CSE for its healthy earnings growth trajectory and decent FY24F dividend yield of 6.4%. Our TP is raised to S\$0.62 as we roll forward our valuation to 12x CY25F P/E, still pegged to the FY12-19 average. Re-rating catalysts: strong infra order win momentum, large greenfield energy project wins, and consistent margin improvements. Downside risks: major project cost overruns, and a sharp decline in order wins as clients pull back on spending.

Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (S\$m)	557.7	725.0	844.3	930.8	986.1
Operating EBITDA (S\$m)	33.40	62.80	71.32	79.00	83.31
Net Profit (S\$m)	4.77	22.51	28.26	33.38	36.09
Core EPS (S\$)	0.014	0.037	0.046	0.054	0.059
Core EPS Growth	(51%)	156%	26%	18%	8%
FD Core P/E (x)	30.07	11.75	9.36	7.92	7.33
DPS (S\$)	0.028	0.028	0.028	0.028	0.028
Dividend Yield	6.40%	6.40%	6.40%	6.40%	6.40%
EV/EBITDA (x)	9.02	5.42	4.75	4.15	3.71
P/FCFE (x)	NA	6.66	20.07	11.58	10.13
Net Gearing	34.0%	35.2%	32.9%	26.2%	17.0%
P/BV (x)	1.08	1.22	1.16	1.08	1.00
ROE	3.8%	10.5%	12.7%	14.2%	14.2%
% Change In Core EPS Estimates			(2.65%)	(1.37%)	
EPS/Consensus EPS (x)			1.04	1.01	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Sitting on a large Infra order book

Figure 1: Results comparison table

FYE Dec (\$\$ m)	2H23	2H22	yoy chg (%)	1H23	hoh chg (%)	FY23	FY22	yoy chg (%)	Prev. FY23F	Comments
Revenue	375.8	295.5	27.2	349.3	7.6	725.0	557.7	30.0	714.3	In line, FY23 formed 102% of our full-year forecast
Cost of sales	(271.7)	(222.1)	22.3	(253.5)	7.2	(525.2)	(411.5)	27.6	(513.7)	
Gross profit	104.0	73.4	41.7	95.8	8.6	199.8	146.2	36.7	200.5	In line
GPM (%)	27.7%	24.8%	n.m.	27.4%	n.m.	27.6%	26.2%	n.m.	n.m.	28.1%
Operating expenses	(84.5)	(68.1)	24.0	(76.5)	10.5	(160.9)	(132.6)	21.4	(160.1)	
EBIT	19.5	5.3	271.6	19.4	0.9	38.9	13.6	186.5	40.4	Slightly below, FY23 formed 96% of our full-year forecast
Interest expense	(5.9)	(4.0)	46.7	(4.7)	25.7	(10.7)	(5.9)	80.7	(11.0)	
Pretax profit	14.0	1.7	712.3	14.7	(4.9)	28.7	8.3	246.3	29.9	
Tax	(2.6)	(1.5)	76.2	(3.7)	(30.2)	(6.3)	(3.5)	80.7	(7.5)	Above
Tax rate (%)	19%	85.4%	n.m.	25.2%	n.m.	22.0%	42.1%	n.m.	25.0%	
Net profit	11.5	0.2	4,790.6	11.0	4.3	22.5	4.8	372.0	22.4	In line, FY23 formed 100% of our full-year forecast
EPS (Scts)	1.87	0.04	4,575.0	1.79	4.5	3.66	0.89	311.2	3.63	

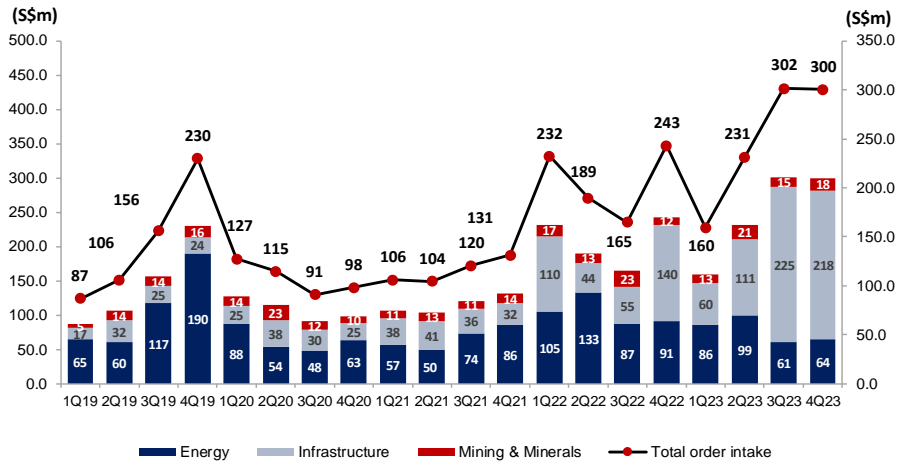
SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: Segmental breakdown by industry and geography

FYE Dec (\$\$ m)	1H19	2H19	1H20	2H20	1H21	2H21	1H22	2H22	1H23	2H23	hoh (%)	yoy (%)
By industry:												
Revenue:												
Energy	121.0	173.1	179.0	162.2	140.3	137.0	130.0	146.8	154.8	169.8	9.7%	15.7%
Infrastructure	47.0	68.3	50.2	56.8	70.3	73.3	103.9	115.5	163.8	178.5	9.0%	54.5%
Mining & Minerals	15.8	26.6	26.4	28.3	23.9	23.9	28.2	33.4	30.7	27.4	-10.7%	-18.0%
Group revenue	183.7	268.0	255.6	247.2	234.5	234.2	262.2	295.5	349.3	375.8	7.6%	27.2%
EBIT:												
Energy	8.3	9.9	12.1	8.7	4.1	(1.0)	(1.7)	(1.6)	4.2	3.3	-21.4%	-306.3%
Infrastructure	5.8	7.4	5.9	8.8	8.4	7.6	7.5	4.9	13.3	14.0	5.3%	185.7%
Mining & Minerals	0.1	0.3	1.6	2.3	1.3	2.0	2.5	1.9	1.8	2.3	27.8%	21.1%
Group EBIT	14.1	17.7	19.5	19.8	13.8	8.5	8.3	5.3	19.4	19.5	0.9%	271.6%
EBIT margin: (%)												
Energy	6.9%	5.7%	6.8%	5.4%	2.9%	-0.7%	-1.3%	-1.1%	2.7%	1.9%	-0.8% pts	n.m.
Infrastructure	12.3%	10.8%	11.8%	15.5%	11.9%	10.4%	7.2%	4.2%	8.1%	7.8%	-0.3% pts	3.6% pts
Mining & Minerals	0.6%	1.1%	6.1%	8.1%	5.4%	8.4%	8.9%	5.7%	5.9%	8.4%	2.5% pts	2.7% pts
Group EBIT margin	7.7%	6.6%	7.6%	8.0%	5.9%	3.6%	3.2%	1.8%	5.5%	5.2%	-0.3% pts	3.4% pts
By geography:												
Revenue:												
Asia Pacific	66.9	98.2	81.4	87.4	91.1	93.2	104.5	114.1	134.9	134.0	-0.7%	17.4%
Americas	113.6	165.9	172.2	156.5	137.4	134.8	149.0	170.7	204.3	230.3	12.8%	35.0%
EMEA	3.2	4.0	1.9	3.3	5.9	6.2	8.7	10.7	10.1	11.5	13.9%	6.9%
Group revenue	183.7	268.0	255.6	247.2	234.5	234.2	262.2	295.5	349.3	375.8	7.6%	27.2%
EBIT:												
Asia Pacific	8.5	8.0	10.3	13.0	10.2	10.2	11.4	10.8	15.1	13.6	-9.9%	26.0%
Americas	5.3	9.4	9.7	6.3	3.1	(2.0)	(3.7)	(7.0)	3.4	4.8	42.8%	n.m.
EMEA	0.3	0.3	(0.4)	0.5	0.5	0.3	0.6	1.4	0.9	1.1	25.7%	-23.2%
Group EBIT	14.1	17.7	19.5	19.8	13.8	8.5	8.3	5.3	19.4	19.5	0.9%	271.6%
EBIT margin: (%)												
Asia Pacific	12.8%	8.1%	12.6%	14.8%	11.2%	10.9%	10.9%	9.5%	11.2%	10.2%	-1.0% pts	0.7% pts
Americas	4.7%	5.7%	5.6%	4.0%	2.3%	-1.5%	-2.5%	-4.1%	1.7%	2.1%	0.4% pts	n.m.
EMEA	9.5%	7.5%	-20.5%	14.9%	8.0%	4.4%	7.1%	13.1%	8.5%	9.4%	0.9% pts	-3.7% pts
Group EBIT margin	7.7%	6.6%	7.6%	8.0%	5.9%	3.6%	3.2%	1.8%	5.5%	5.2%	-0.3% pts	3.4% pts

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 3: 4Q23 order wins stood strong at S\$300m, bringing FY23 order wins to a record high of S\$990m



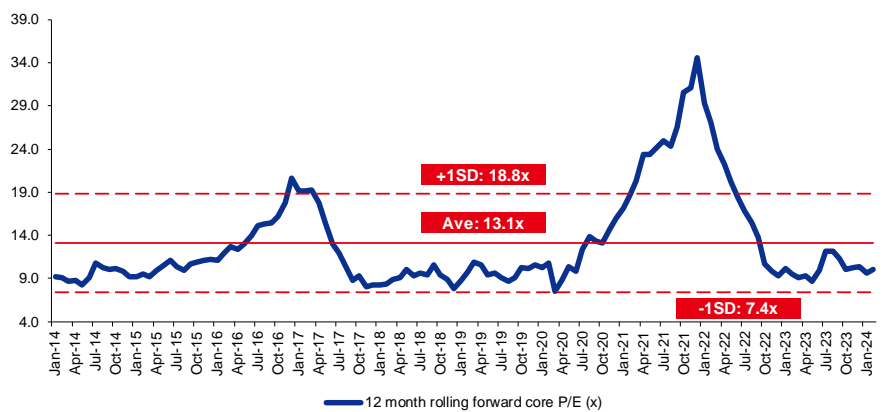
SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 4: Earnings revision



(S\$m)	New			Old			% change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	844.3	930.8	986.1	857.1	940.7	986.1	-1.5%	-1.1%	0.0%
Gross profit	237.0	261.9	277.5	243.5	268.9	277.5	-2.7%	-2.6%	0.0%
Operating expenses	(189.6)	(207.4)	(218.9)	(193.6)	(212.5)	(218.9)	-2.0%	-2.4%	0.0%
Operating profit	47.3	54.5	58.6	49.9	56.4	58.6	-5.2%	-3.5%	0.0%
Core net profit	28.3	33.4	36.1	29.2	34.0	36.1	-3.2%	-2.0%	0.0%
Core EPS (Scts)	4.6	5.4	5.9	4.7	5.5	5.9	-2.7%	-1.4%	0.0%

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: CSE Global's 12-month rolling forward core P/E (x)

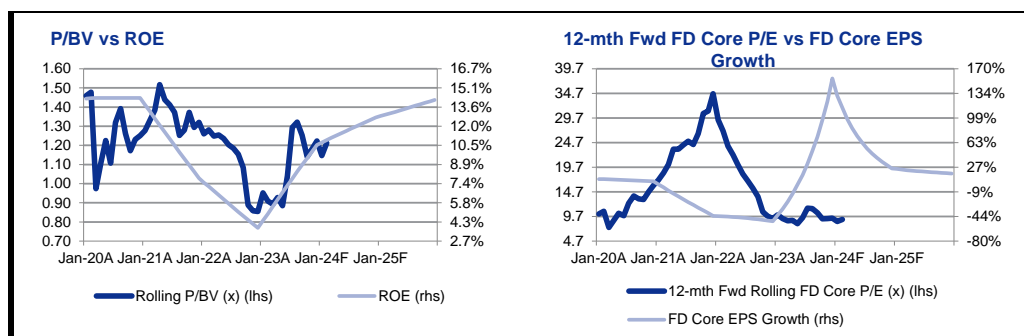


SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Refinitiv ESG Scores	
	
	
ESG in a nutshell	
<p>We think there is room for CSE to improve its corporate governance policies. Since 2015, the group has maintained a C- Refinitiv ESG score, improving to C in 2022. Its current score of C is split into E: C+ (weightage 13.9%), S: B- (weightage 39.8%), G: C- (weightage 46.3%). As the group has highlighted certain ESG goals to be achieved by 2030, we will remain watchful of its progress and adjust our valuations accordingly.</p>	
Keep your eye on	Implications
<p>As a solutions provider, transparency of information could be limited at times for the group's order book. Order book amounts disclosed include segmental breakdowns, but further details (e.g. specific project breakdowns) are usually not disclosed.</p>	<p>Greater transparency on individual orders could improve investor sentiment and allow more informed decision-making. This would also contribute further towards the group's corporate governance ratings.</p>
ESG highlights	Implications
<p>According to Refinitiv, CSE had an overall ESG score of C in 2022 (2021: C+). The group scored a C+ in environmental by Refinitiv in 2022, which we believe was due to its continued high levels of Greenhouse Gas Emission (GHG). CSE targets to improve its GHG emission efficiency by 10% during 2018-30 (0.8% improvement per year).</p> <p>CSE scored C- for Governance by Refinitiv in 2022. We think that this could be due to a variety of factors, including low board gender diversity and low participation in Sustainable Development Goals (SDGs).</p>	<p>We think that CSE will continue improving its governance and ramp up its CSR initiatives, in line with heightened investor scrutiny in these aspects. We have not factored these into our fundamental valuations yet.</p>
Trends	Implications
<p>CSE recorded an increase in greenhouse gas (GHG) emissions in FY22, with FY22 GHG emission index rising to 4.96 tCO2/\$m (FY21: 4.85). This fell short of CSE's FY22 target to reduce its greenhouse gas carbon emission index by 2% yoy. For FY23F, the group intends to reduce its greenhouse gas carbon emission index by 1% yoy.</p>	<p>We have not applied any premium/discount for ESG in our fundamental valuations. That said, we remain watchful of the group's progress in attaining its environmental targets.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	557.7	725.0	844.3	930.8	986.1
Gross Profit	146.2	199.8	237.0	261.9	277.5
Operating EBITDA	33.4	62.8	71.3	79.0	83.3
Depreciation And Amortisation	(19.8)	(23.9)	(24.0)	(24.5)	(24.7)
Operating EBIT	13.6	38.9	47.3	54.5	58.6
Financial Income/(Expense)	(5.2)	(10.1)	(11.1)	(11.1)	(11.1)
Pretax Income/(Loss) from Assoc.	(0.0)	(0.0)	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	8.3	28.7	36.2	43.4	47.5
Exceptional Items					
Pre-tax Profit	8.3	28.7	36.2	43.4	47.5
Taxation	(3.5)	(6.3)	(8.0)	(10.0)	(11.4)
Exceptional Income - post-tax					
Profit After Tax	4.8	22.4	28.3	33.4	36.1
Minority Interests	(0.0)	0.1	0.0	0.0	0.0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4.8	22.5	28.3	33.4	36.1
Recurring Net Profit	7.6	22.5	28.3	33.4	36.1
Fully Diluted Recurring Net Profit	7.6	22.5	28.3	33.4	36.1

Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	33.40	62.80	71.32	79.00	83.31
Cash Flow from Invt. & Assoc.	0.03	0.02	0.00	0.00	0.00
Change In Working Capital	(21.22)	6.54	(18.08)	(14.09)	(8.72)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3.12)	2.66	0.00	0.00	0.00
Net Interest (Paid)/Received	(4.94)	(9.50)	(11.10)	(11.10)	(11.10)
Tax Paid	(4.13)	(6.62)	(7.97)	(9.97)	(11.40)
Cashflow From Operations	0.01	55.90	34.17	43.84	52.10
Capex	(15.46)	(17.91)	(15.00)	(15.00)	(15.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(30.73)	(15.95)	0.00	0.00	0.00
Other Investing Cashflow	0.48	9.47	(1.00)	(1.00)	(1.00)
Cash Flow From Investing	(45.72)	(24.39)	(16.00)	(16.00)	(16.00)
Debt Raised/(repaid)	12.13	8.21	(5.00)	(5.00)	(10.00)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(14.09)	(16.91)	(16.91)	(16.91)	(16.91)
Preferred Dividends					
Other Financing Cashflow	27.01	(8.14)	0.00	0.00	0.00
Cash Flow From Financing	25.05	(16.84)	(21.91)	(21.91)	(26.91)
Total Cash Generated	(20.66)	14.67	(3.74)	5.93	9.19
Free Cashflow To Equity	(33.58)	39.72	13.17	22.84	26.10
Free Cashflow To Firm	(40.54)	41.38	30.17	39.54	47.70

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	34.2	39.4	35.7	41.6	50.8
Total Debtors	138.3	153.2	175.8	193.8	205.3
Inventories	52.0	70.8	76.5	80.6	81.5
Total Other Current Assets	101.4	137.6	151.6	160.7	164.1
Total Current Assets	325.9	401.0	439.6	476.8	501.8
Fixed Assets	63.5	70.3	66.3	61.8	57.1
Total Investments	0.2	0.2	0.2	0.2	0.2
Intangible Assets	80.8	93.4	89.4	85.4	81.4
Total Other Non-Current Assets	23.2	34.8	34.8	34.8	34.8
Total Non-current Assets	167.7	198.7	190.7	182.1	173.4
Short-term Debt	68.7	95.9	91.8	87.6	79.3
Current Portion of Long-Term Debt					
Total Creditors	102.6	127.8	144.8	157.6	165.0
Other Current Liabilities	51.2	111.9	119.3	123.6	123.3
Total Current Liabilities	222.5	335.7	355.9	368.8	367.6
Total Long-term Debt	37.7	19.5	18.7	17.8	16.1
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	21.1	28.4	28.4	28.4	28.4
Total Non-current Liabilities	58.8	47.9	47.0	46.2	44.5
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	281.4	383.6	402.9	415.0	412.1
Shareholders' Equity	212.3	216.1	227.5	244.0	263.1
Minority Interests	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Total Equity	212.3	216.1	227.4	243.9	263.1

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	19.0%	30.0%	16.4%	10.2%	6.0%
Operating EBITDA Growth	(21.8%)	88.0%	13.6%	10.8%	5.5%
Operating EBITDA Margin	5.99%	8.66%	8.45%	8.49%	8.45%
Net Cash Per Share (\$\$)	(0.14)	(0.12)	(0.12)	(0.10)	(0.07)
BVPS (\$\$)	0.40	0.35	0.37	0.40	0.43
Gross Interest Cover	2.30	3.65	3.94	4.65	5.05
Effective Tax Rate	42.1%	22.0%	22.0%	23.0%	24.0%
Net Dividend Payout Ratio	308%	75%	60%	51%	47%
Accounts Receivables Days	76.96	73.38	71.31	72.47	73.87
Inventory Days	36.05	42.67	44.39	42.88	41.77
Accounts Payables Days	71.72	80.07	82.13	82.49	83.09
ROIC (%)	3.0%	9.9%	11.5%	12.7%	13.3%
ROCE (%)	4.7%	12.1%	14.4%	16.0%	16.7%
Return On Average Assets	1.76%	5.54%	6.00%	6.50%	6.67%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Outstanding order book	480.1	730.6	900.3	1,001.6	1,065.4
Order book wins	818.7	990.2	1,014.0	1,032.0	1,050.0

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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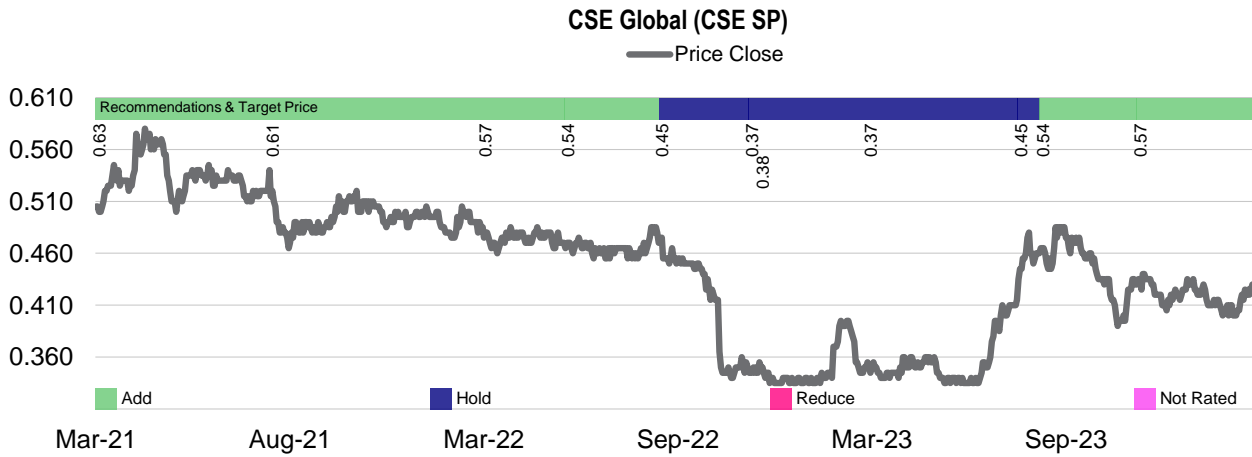
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

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Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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