

4 June 2020

Technology | Software & Services

CSE Global (CSE SP)

Buy (Maintained)

Strong 1Q20 Results; Maintain BUY

Target Price (Return): SGD0.54 (+10%)
 Price: SGD0.49
 Market Cap: USD179m
 Avg Daily Turnover (SGD/USD) 1.01m/0.72m

- Maintain BUY and P/E-based TP of SGD0.54, 10% upside and c.6% yield.** CSE Global registered 56% and 23.1% revenue and PATMI growth YoY in 1Q20 to SGD131.8m and SGD7.1m. Growth was mainly due to the strong revenue flow from the Americas and Asia-Pacific region, as well as contribution from the Volta and RCS acquisitions. We remain cautiously optimistic on the company's prospects but expect COVID-19 and low oil prices to have a negative impact to its business in 2Q20.
- 1Q20 results in line.** 1Q20 revenue and net profit accounted for 29% and 31% of our full year forecast. As suggested in the previous report "[Temporary Disruption; Still BUY](#)", we expected 1Q20 results to be relatively decent as the major disruption by COVID-19 in the key countries where CSE operates only happened in March, coupled with the further decline in oil prices. Strong operating cash flow in 1Q20 of SGD17.3m also enabled CSE to pare down its debt quicker, and lower its net debt position from SGD44.5m to SGD32.7m (net gearing: 0.18x). The net debt position arose due to the leveraging of borrowings to fund the acquisition of Volta in Sep 2019, which proved to be accretive. Order intake increased 46.6% YoY to SGD127.2m as a result of growth across all business segments – oil & gas, Infrastructure, and mining & minerals. Orderbook was up 66.9% YoY to SGD302.7m as at end-1Q20 from SGD181.4m in 1Q19. The oil & gas segment in the Americas locked in c.SGD100-120m more backlog in 1Q20 due to the two new contracts secured in Oct 2019 worth c.SGD103.7m.
- FY20 to meet expectations.** With a robust orderbook, and resilient business flow, we think FY20 performance will likely meet our lowered expectations. Most of CSE's businesses are deemed as essential services and were operating during the "Circuit Breaker" period. However, travel restrictions, coupled with the awfully low oil prices, had somewhat impacted its business in April and May – such as lower profit margin due to lower pricing of orders and fewer orders. Nevertheless, as countries move towards reopening their respective economies, we believe the worst could be over.
- Growth strategy intact.** The company's growth has all along been built upon successful acquisitions – we witnessed it with the recent acquisitions of RCS Telecommunications (RCS) and Volta in its FY19 and 1Q20 results. We believe the company will continue to make accretive acquisitions, focusing on the oil & gas and infrastructure segments in the key countries – Americas, Australia/New Zealand, and Europe once the pandemic abates.
- Maintain BUY.** We expect CSE Global's performance to be resilient and with strong cash flow generation, dividend is also sustainable. Our TP of SGD0.54 implies 10.5x FY21F P/E, which is near its 3-year average forward P/E.

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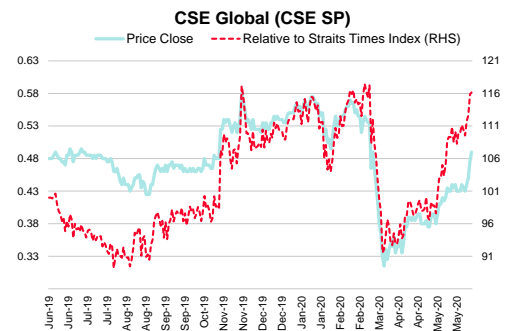


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.9)	24.1	(10.1)	(6.7)	3.2
Relative	5.3	21.2	0.5	8.2	16.8
52-wk Price low/high (SGD)					0.32 – 0.58



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	373	452	453	496	539
Recurring net profit (SGDm)	20	24	23	26	29
Recurring net profit growth (%)	51.2	19.6	(4.4)	14.0	11.6
Recurring P/E (x)	12.49	10.37	10.83	9.50	8.51
P/B (x)	1.5	1.4	1.3	1.3	1.2
P/CF (x)	5.10	21.29	4.95	6.04	5.57
Dividend Yield (%)	5.6	5.6	5.6	5.6	5.6
EV/EBITDA (x)	5.90	6.46	5.55	4.77	4.07
Return on average equity (%)	11.6	13.8	12.7	13.7	14.2
Net debt to equity (%)	net cash	25.3	10.7	2.2	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.04	0.05	0.05	0.05	0.06
Technology	DPS	0.03	0.03	0.03	0.03	0.03
CSE Global	BVPS	0.34	0.35	0.36	0.39	0.42
CSE SP	Return on average equity (%)	11.6	13.8	12.7	13.7	14.2
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	12.49	10.37	10.83	9.50	8.51
12x Forward FY20F PE	P/B (x)	1.5	1.4	1.3	1.3	1.2
	FCF Yield (%)	17.0	0.5	17.0	13.3	14.7
Key drivers	Dividend Yield (%)	5.6	5.6	5.6	5.6	5.6
i. Large contract wins;	EV/EBITDA (x)	5.90	6.46	5.55	4.77	4.07
ii. Strong order book;	EV/EBIT (x)	7.53	9.23	8.33	6.96	5.82
iii. Potential accretive acquisitions;						
iv. Attractive dividend yield.						
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	373	452	453	496	539
i. Oil price volatility;	Gross profit	104	124	122	134	148
ii. Economic slowdown;	EBITDA	36	45	48	53	58
iii. FX risks;	Depreciation and amortisation	(8)	(14)	(16)	(17)	(17)
iv. Declining order intake,	Operating profit	28	32	32	36	40
v. Lower margins;	Net interest	(1)	(2)	(3)	(3)	(3)
vi. Execution risks.	Pre-tax profit	28	30	29	34	37
	Taxation	(7)	(6)	(6)	(7)	(8)
Company Profile	Reported net profit	20	24	23	26	29
CSE Global is a leading systems integrator that focuses on the provision and installation of a variety of control systems, as well as turnkey telecommunication network and security solutions. It targets the oil & gas, infrastructure, and mining industries.	Recurring net profit	20	24	23	26	29
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	19.7	(26.6)	11.1	(1.7)	(1.9)
	Cash flow from operations	49.3	11.7	50.2	41.2	44.7
	Capex	(6.6)	(10.5)	(8.0)	(8.0)	(8.0)
	Cash flow from investing activities	(7.5)	(85.3)	(11.6)	(11.7)	(11.7)
	Dividends paid	(14.2)	(14.0)	(14.0)	(14.0)	(14.0)
	Cash flow from financing activities	(12.8)	50.9	(14.0)	(14.0)	(14.0)
	Cash at beginning of period	46.9	74.1	58.6	83.3	98.8
	Net change in cash	29.1	(22.7)	24.7	15.5	19.0
	Ending balance cash	75.8	50.5	83.3	98.8	117.8
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	74	59	83	99	118
	Tangible fixed assets	28	58	59	59	58
	Total assets	269	396	406	426	447
	Short-term debt	36	73	73	73	73
	Total long-term debt	0	30	30	30	30
	Total liabilities	97	220	221	228	234
	Total equity	172	176	185	198	213
	Total liabilities & equity	269	396	406	426	447
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	3.1	21.0	0.3	9.4	8.8
	Recurrent EPS growth (%)	52.2	20.5	(4.2)	14.0	11.6
	Gross margin (%)	27.7	27.4	27.0	27.0	27.4
	Operating EBITDA margin (%)	9.7	10.1	10.7	10.7	10.7
	Net profit margin (%)	5.4	5.3	5.1	5.3	5.4
	Dividend payout ratio (%)	70.4	58.1	60.8	53.3	47.8
	Capex/sales (%)	1.8	2.3	1.8	1.6	1.5
	Interest cover (x)	34.1	14.9	10.4	11.8	13.0

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-07	Buy	0.54	0.38
2020-02-28	Buy	0.73	0.52
2020-02-11	Buy	0.69	0.55
2019-08-16	Buy	0.61	0.45
2019-02-22	Buy	0.60	0.47
2019-01-16	Buy	0.59	0.43

Source: RHB, Bloomberg

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