Singapore Company Update

11 February 2020

Technology | Software & Services

CSE Global (CSE SP)

Buy (Maintained)

System Resilient Against Virus; Stay BUY

Target Price (Return):	SGD0.69 (30%)
Price:	SGD0.53
Market Cap:	USD194m
Avg Daily Turnover (SGD/USD)	1.10m/0.81m

- **Maintain BUY, DCF-based TP of SGD0.69, 30% upside plus c.5% yield.** CSE Global secured new orders worth SGD230m in 4Q19, bringing the full-year order intake to SGD580m. With a sizeable orderbook of >SGD300m, we expect the company to continue performing well in FY20. We also anticipate FY19 net profit (recurring) to be in line with our SGD24m estimate.
- **Order intake of SGD230m in 4Q19.** This consists of SGD25m from the infrastructure sector, SGD16m from the mining sector and SGD190m from the oil & gas sector. Out of the SGD190m orders from the oil & gas sector, USD74.7m (SGD103.7m) were from two new projects in the Americas, which were announced on 29 Oct 2019. The oil & gas sector's order intake totalled SGD430m, up significantly from SGD218 in FY18. This has resulted in a total of SGD580m in new orders secured last year, marking a surge of 52% YoY from FY18's SGD380.6m.
- **Impact of novel coronavirus (2019-nCoV).** We believe that the nCoV situation will have a minimum impact on the group's business for now, as CSE Global does not have a significant presence in China. However, if the nCoV triggers a global epidemic, projects could be delayed or cancelled.
- **FY19 results to be in line.** CSE Global is likely to release its full-year results on the last week of February. 9M19 revenue and net profit of SGD295.2m (+7.7% YoY) and SGD15.6m (+6.8% YoY) were at 71% and 69% of our forecasts. Our full-year net profit forecast (recurring) of SGD24m remains intact. A final DPS of 1.5 SG cents is expected to be declared, as the group is committed to maintaining a full-year dividend of 2.75 SG cents per share, translating to an attractive yield of 5.2%.
- **Maintain BUY and DCF-backed TP of SGD0.69, implying 11.9x FY20F P/E.** With a high order intake and backlog, as well as the inclusion of profits from Volta, we are expecting CSE Global to produce strong results in FY20F. The stock is trading at 9.1x FY20F P/E, with an attractive dividend yield of 5.1%.
- **Key downside risks** include oil price volatility, economic slowdown, FX risks, declining order intake, lower margins, and execution risks.

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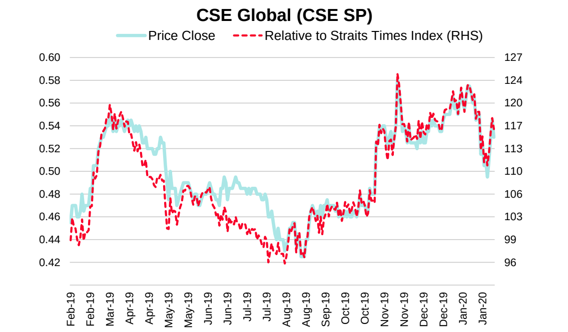
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.6)	(5.4)	0.0	17.8	16.5
Relative	(2.3)	(3.3)	3.2	17.9	17.1
52-wk Price low/high (SGD)					0.43 – 0.58



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	362	377	420	477	491
Recurring net profit (SGDm)	13	21	24	29	31
Recurring net profit growth (%)	(37.2)	55.4	16.8	22.1	4.4
Recurring P/E (x)	20.57	13.15	11.18	9.14	8.75
P/B (x)	1.6	1.6	1.6	1.4	1.3
P/CF (x)	7.36	5.69	35.05	8.00	6.82
Dividend Yield (%)	5.2	5.2	5.2	5.2	5.2
EV/EBITDA (x)	3.45	6.71	7.99	6.17	5.65
Return on average equity (%)	7.1	12.0	13.5	16.0	15.4
Net debt to equity (%)	(8.8)	(22.0)	32.9	24.1	13.7
Interest cover (x)	82.12	32.57	22.04	16.42	22.35

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Technology
CSE Global
CSE SP
Buy

Valuation basis

DCF-derived TP of SGD0.69

Key drivers

i. Large contract wins;
ii. Strong order book;
iii. Potential yield-accretive acquisitions;
iv. Attractive dividend yield

Key risks

i. Oil price volatility;
ii. Economic slowdown;
iii. FX risks;
iv. Declining order intake;
v. Lower margins;
vi. Execution risks.

Company Profile

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.

Financial summary (SGD)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS	0.03	0.04	0.05	0.06	0.06
DPS	0.03	0.03	0.03	0.03	0.03
BVPS	0.34	0.33	0.34	0.37	0.40
Return on average equity (%)	7.1	12.0	13.5	16.0	15.4

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	20.57	13.15	11.18	9.14	8.75
P/B (x)	1.6	1.6	1.6	1.4	1.3
FCF Yield (%)	10.6	15.2	(10.0)	9.6	11.7
Dividend Yield (%)	5.2	5.2	5.2	5.2	5.2
EV/EBITDA (x)	3.45	6.71	7.99	6.17	5.65
EV/EBIT (x)	3.82	8.64	10.14	7.62	7.02

Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	362	377	420	477	491
Gross profit	94	105	113	124	128
EBITDA	75	35	41	51	53
Depreciation and amortisation	(7)	(8)	(9)	(10)	(10)
Operating profit	68	27	32	41	42
Net interest	(0)	(1)	(1)	(2)	(1)
Pre-tax profit	23	27	30	39	41
Taxation	(9)	(7)	(7)	(10)	(10)
Reported net profit	15	21	23	29	31
Recurring net profit	13	21	24	29	31

Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	(33)	19	(24)	(6)	(2)
Cash flow from operations	37	48	8	34	39
Capex	(8)	(7)	(35)	(8)	(8)
Cash flow from investing activities	(10)	(7)	(84)	(8)	(8)
Dividends paid	(14)	(14)	(14)	(14)	(14)
Cash flow from financing activities	(4)	(13)	41	(24)	(34)
Cash at beginning of period	91	47	74	33	35
Net change in cash	23	28	(36)	2	(2)
Ending balance cash	107	75	38	35	33

Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	47	74	33	35	33
Tangible fixed assets	28	28	56	56	56
Total assets	284	269	320	333	331
Short-term debt	31	36	36	36	36
Total long-term debt	0	0	55	45	25
Total liabilities	108	97	145	141	123
Total equity	176	172	176	191	208
Total liabilities & equity	284	269	320	333	331

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	14.0	4.0	11.6	13.4	3.0
Recurrent EPS growth (%)	(37.2)	56.4	17.6	22.3	4.4
Gross margin (%)	26.0	27.9	27.0	26.0	26.0
Operating EBITDA margin (%)	20.8	9.3	9.7	10.7	10.7
Net profit margin (%)	4.2	5.5	5.6	6.2	6.3
Dividend payout ratio (%)	94.3	68.5	59.9	47.4	45.4
Capex/sales (%)	2.2	1.7	8.2	1.7	1.6
Interest cover (x)	82.1	32.6	22.0	16.4	22.3

Source: Company data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-08	Buy	0.69	0.52
2019-11-01	Buy	0.69	0.54
2019-09-04	Buy	0.69	0.47
2019-08-16	Buy	0.61	0.45
2019-05-08	Buy	0.61	0.49
2019-03-26	Buy	0.61	0.55
2019-02-22	Buy	0.60	0.47
2019-01-16	Buy	0.59	0.43
2018-11-09	Buy	0.59	0.45
2018-10-11	Buy	0.59	0.46

Source: RHB, Bloomberg

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