22 February 2019

Technology | Software & Services

CSE Global (CSE SP)

Buy (Maintained)

In The Right Place At The Right Time; BUY

Target Price (Return)	SGD0.60 (+30%)
Price:	SGD0.46
Market Cap:	USD175m
Avg Daily Turnover (SGD/USD)	0.8m/0.6m

- **Maintain BUY, as we lift our DCF-based Street-high TP to SGD0.60 from SGD0.59, implying 30% upside plus 6% yield.** CSE Global's FY18 revenue grew 4% YoY to SGD 376.8m on a wider GPM of 27.9% (FY17: 26%). Net cash doubled to SGD37.9m due to strong cash inflow from operations, totalling SGD56.3m. Its full-year DPS of SGD0.0275 is in line with our estimate.
- **FY18 PATMI of SGD20.1m** far exceeded FY17's adjusted PATMI of SGD13.3m (+50.8% YoY). In our 16 Jan note titled *CSE Wins On Home Ground; Maintain BUY*, we expected its results to be in line, if not better than estimated. The company's FY18 net profit of SGD19.4m beat our forecasted NPAT of SGD18.2m, on both revenue and margin improvements. Its net profit margin improved to 5.3% from 3.7% in FY17, and is expected to remain stable in the near term. This, coupled with the healthy intake of orders and a solid order backlog, leads us to boost our FY19-23F NPAT by 11-13%.
- **What to expect in 1H19?** First, the commissioning of two large greenfield projects will be completed in 1H19 – which will see the balance contract value recognised and maybe even the start of maintenance services for both. Second, its infrastructure segment should see lower margins, as it commences work on government contracts. We can also look forward to possible contract wins, and potential yield-accretive acquisitions this year.
- **Strong net cash position of SGD37.9m.** Exceptionally good cash inflow from operations of SGD56.3m has provided CSE with a comfortable level of working capital to take on bigger projects and fund acquisitions. DPS is likely to be consistent with FY18's level, as the group looks to utilise its cash pile to take its business to the next level. We remain positive on yield-accretive acquisitions, which will likely happen over the next couple of months.
- **4QFY18 order intake of SGD145.2m boosted by infrastructure contracts.** The large infrastructure project (we estimate the value to be c.SGD60m), which the group secured in end-2018, contributed to the total order intake of SGD384.2m for FY18 – slightly above FY17's SGD381.9m. Against a buoyant macro-economic environment – especially within the Singapore infrastructure space – we are optimistic that CSE's winning streak will remain in place, and that it will win more contracts while maintaining profitability.
- We expect CSE to continue recording positive numbers. As such, we increase our NPAT forecasts for FY19-23 by 11-13%. Key downside risks include oil price volatility, forex risks, declining order intake, lower margins and execution risks.

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	362.4	376.8	386.9	399.9	412.8
Recurring net profit (SGDm)	13.3	19.4	21.0	23.4	24.4
Recurring net profit growth (%)	(37.3)	46.2	7.8	11.5	4.6
Recurring P/E (x)	17.8	12.2	11.3	10.1	9.7
P/BV (x)	1.3	1.4	1.3	1.3	1.2
P/CF (x)	na	5.0	8.1	7.7	7.2
Dividend Yield (%)	5.9	5.9	5.9	5.9	5.9
EV/EBITDA (x)	19.6	5.8	5.3	4.6	4.1
ROE (%)	7.6	11.4	11.8	12.5	12.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	na	31.9	34.2	38.0	39.7

Source: Company data, RHB

Analyst



Lee Cai Ling
+65 6232 3892
lee.cai.ling@rhbgroup.com

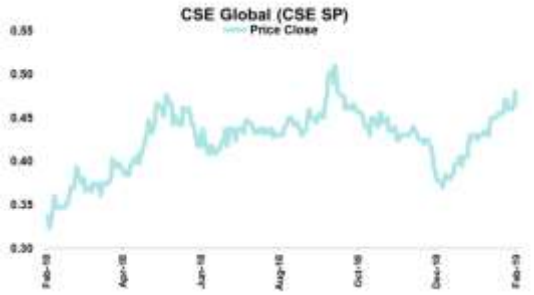


Jarick Seet
+65 6232 3891
jarick.seet@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	22.4	8.1	9.4	8.1	30.8
Relative	15.6	6.4	1.5	5.7	37.5

52-wk Price low/high (SGD) 0.34 – 0.52



Source: Bloomberg

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KUALA LUMPUR

RHB Research Institute Sdn Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710
Indonesia
Tel : +6221 2783 0888
Fax :+6221 2783 0777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Research Institute Singapore Pte Ltd.
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211