

8 May 2019

Technology | Software & Services

CSE Global (CSE SP)

Buy (Maintained)

Positive for FY19; Maintain BUY

Target Price (Return) SGD0.61 (+22%)
 Price: SGD0.50
 Market Cap: USD186m
 Avg Daily Turnover (SGD/USD) 0.4m/0.3m

- **Maintain BUY, and high end of consensus TP of SGD0.61, 22% upside plus 6% yield.** Core net profit was SGD4.6m (+5.3% YoY) on higher gross (1QFY19: 27.7%, 1QFY18: 26.8%), and net (1QFY19: 6.7%, 1QFY18: 6.2%) profit margins despite recording lower revenue of SGD85.4m (-7.4% YoY). We expect revenue to catch up in the next two quarters. As such, we remain positive on this counter, and even included it in our "20 Jewels 2019 Edition".
- **1Q19F revenue had reflected a slower start to FY19.** We expected 1Q19F revenue at SGD92-95m – the lowest among the four quarters. Also, contribution from RCS Telecommunications Pty Ltd should only come in 2Q19. However, reported revenue fell short of our forecast, at SGD85.4m. We understand that there is a delay in certain projects, and we estimate it to be SGD6-8m. We believe it will catch up in the next two quarters. We also expect better core net profit (1Q19: SGD4.6m), and PATMI (1Q19: SGD5.7m) in the next two quarters on higher revenue. Still, 2Q19 would be important for us to determine how the earnings would pan out for the rest of FY19.

The decreased in 1Q19 revenue was due to a slower business flow in the US and Australia, as well as an absence of the large greenfield revenue. The communications business in Australia recorded a drop from SGD12.1m to SGD7.9m, while the large greenfield project revenue recorded in 1Q18 was SGD7.4m.

- **Order intake of SGD87.5m, +26.9% YoY.** New orders received for the quarter were SGD87.5m, compared to SGD69m in 1Q18. The increase came from the oil & gas sector, which contributed SGD65.9m worth of orders, up from SGD49.5m in 1Q18. This brings the backlog to SGD182.2m in 1Q19 (1Q18: SGD148.6m). Infrastructure segment order backlog stood at 126.5m as at 31 Mar 2019, comprising orders including contracts awarded by the Singapore Government.
- **DPS at SGD0.0275.** With strong net cash position of SGD34.8m, and the confidence of generating positive operating cash flow this financial year, management intends to maintain dividend at SGD0.0275/share. At the current price, this counter offers an attractive dividend yield of 5.5%.
- **Maintain BUY** and DCF-backed TP of SGD0.61, implying 13.7x FY19F P/E. It is currently trading at 11.2x FY19F P/E, with an attractive dividend yield of 5.5%. Key downside risks include oil price volatility, economic slowdown, forex risks, declining order intake, lower margins, and execution risks.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	31.6	(6.5)	9.9	9.9	16.3
Relative	23.5	(6.3)	6.3	1.7	22.4
52-wk Price low/high (SGD)	0.37 – 0.56				



Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Total turnover (SGDm)	362.4	376.8	400.9	418.1	430.6
Recurring net profit (SGDm)	13.3	20.1	22.6	25.5	26.7
Recurring net profit growth (%)	(37.3)	51.2	12.6	12.7	4.6
Recurring P/E (x)	19.1	12.7	11.2	10.0	9.5
P/BV (x)	1.4	1.5	1.4	1.3	1.3
P/CF (x)	na	5.4	8.8	8.0	7.5
Dividend Yield (%)	5.5	5.5	5.5	5.5	5.5
EV/EBITDA (x)	21.2	6.3	5.6	4.8	4.3
ROE (%)	7.6	11.4	12.2	13.0	12.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	na	31.9	35.5	39.9	41.7

Source: Company data, RHB

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