Singapore Results Review

16 August 2019

Technology | Software & Services

CSE Global (CSE SP)

Buy (Maintained)

Expecting Better Results In 2H19; Maintain BUY

Target Price (Return)	SGD0.61 (+39%)
Price:	SGD0.44
Market Cap:	USD161m
Avg Daily Turnover (SGD/USD)	0.59m/0.42m

- **Maintain BUY and DCF-backed TP of SGD0.61, 39% upside plus c.6% yield.** 2Q19 revenue rose 8.4% to SGD99.9m boosted by contribution from the mining sector, but offset by the lower contribution from large greenfield projects in the oil & gas sector. 1H19 revenue/PATMI of SGD185.3m and SGD10.2m were 46.2% & 45.2% of our FY19F. We remain cautiously optimistic on this counter as its orderbook continues to grow.
- **1H results snippet.** Despite 1H19 results slightly missing estimates, we are heartened to see that topline growth is back on track with revenue from the mining sector rising 150.8% YoY to SGD15.8m in 1H19 from SGD6.3m in 1H18. Offshore oil & gas revenue remained flat at SGD70.9m (+1.9% YoY), while onshore oil & gas and infrastructure segments dipped 12.1% and 5.4% (YoY) to SGD51.6m and SGD47m respectively. GPM remained resilient at 27.8% (+90bps) in 1H19. Operating profit of SGD12.1m (+6.3% YoY) was due to higher gross profit, partially offset by higher administrative and marketing expenses as well as one-off professional fees related to acquisitions.

  Order intake increased by 22.6% to 193.9m in 1H19 and flow business remained strong. Its outstanding orderbook of SGD188.1m as at 30 Jun 2019 was at its highest in the last six quarters.
- **Entering into the UK**. CSE Global acquired Chatterbox Ltd, which provides radio communication solutions in the UK for GBP552,000. We believe that the group intends to replicate the business model in Australia by consolidating smaller-sized enterprises under its arm. However, management is mindful of the uncertainties surrounding Brexit and hence, we believe there will not be acquisitions in the near term.
- **Maintain dividend at 2.75 SG cents for FY19.** The group has guided for a full year dividend of 2.75 SG cents, consistent with FY18. Net cash position of SGD8.6m as at 30 Jun 2019 was down from SGD34.8m as at 31 Mar 2019 mainly due to working capital purposes. Operating cash flow is expected to increase by end-FY19F.
- **Maintain BUY** and DCF-backed TP of SGD0.61, implying 13.7x FY19F P/E. It is currently trading at 10x FY19F P/E, with an attractive dividend yield of 6.3%. Key downside risks include oil price volatility, economic slowdown, 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	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)	17.1	11.2	9.9	8.8	8.4
P/BV (x)	1.3	1.3	1.2	1.2	1.1
P/CF (x)	na	4.7	7.7	7.0	6.6
Dividend Yield (%)	6.3	6.3	6.3	6.3	6.3
EV/EBITDA (x)	(7.1)	5.4	4.8	4.1	3.6
ROE (%)	7.6	11.7	12.6	13.4	13.2
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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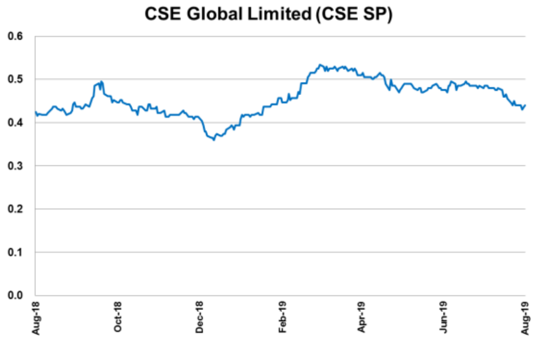
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	15.8	(8.3)	(8.3)	(4.3)	(2.2)
Relative	12.5	(3.4)	(4.9)	(3.3)	2.5
52-wk Price low/high (SGD)					0.37 – 0.56



Source: Bloomberg

Figure 1: 2Q19 results summary

FYE Dec (SGDm)	2Q19	2Q18	YoY (%)	1H19	1H18	YoY (%)
Revenue	99.9	92.1	8.4	185.3	184.3	0.5
Gross Profit	27.8	24.8	11.9	51.5	49.5	3.9
Gross Profit Margin	27.8%	26.9%		27.8%	26.9%	
Operating profit	6.3	5.0	25.7	12.1	11.3	6.3
PATMI	4.5	4.3	3.9	10.2	10.0	1.9
PATMI Margin	4.5%	4.7%		5.5%	5.4%	

Source: Company data

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