

7 August 2020

Technology | Software & Services

CSE Global (CSE SP)

Buy (Maintained)

1H20 Results Prove Resilient; Stay BUY

Target Price (Return): SGD0.60 (+11%)
 Price: SGD0.54
 Market Cap: USD200m
 Avg Daily Turnover (SGD/USD) 2.94m/2.09m

- **BUY, new TP of SGD0.60 from SGD0.54, 11% upside with c.5% FY20F yield.** CSE Global booked 39.1% YoY and 47.7% YoY revenue and PATMI growth in 1H20, to SGD255.6m and SGD15.1m. Excluding a one-off FX gain, NPAT would have been c.SGD12.1m – at 53% of our previous full-year forecast. We anticipate FY20 results to outperform expectations, while the growing revenue from other segments should mitigate the softening in the oil & gas (O&G) sector. As such, we adjust our earnings forecasts by 9% and 7% for FY20-21.
- **Growth comes largely from acquisitions' contributions.** 1H20 revenue came in higher than our previous estimate (56% of full-year forecast), at SGD255.6m. Turnover from its O&G business surged 48% YoY to SGD179m, on higher revenue recognition from projects as well as the inclusion of contributions from Volta. For the mining and minerals (M&M) segment, 1H20 revenue rose 67.6% YoY to SGD26.4m, due to the acquisition of RCS Telecommunications. The infrastructure segment's 1H20 revenue was at SGD50.2m (1H19: SGD47m). GPM widened by 2.7ppt to 30.3%, from a change in its sales mix. We expect GPM to normalise to around 27-29% in the quarters ahead.
- **Slowdown in the O&G unit.** Order intake for this segment declined 38.8% QoQ to SGD53.8m in 2Q20, from SGD87.9m in 1Q20. This led to a drop in 2Q20 O&G revenue to SGD83.4m, from SGD95.6m in 1Q20. As a result of the lower order intake and higher revenue recognition from O&G projects, CSE's order backlog decreased to SGD144.9m as at end-2Q20. We expect the order intake in this segment to remain subdued, amidst the impact caused by the COVID-19 pandemic.
- **Diversification mitigated the downturn in O&G in 2Q20.** Total order intake in 2Q20 dropped 9.7% QoQ to SGD114.9m, due to lower orders from the O&G segment. However, this was offset by increasing orders from the infrastructure and M&M units. The company's orderbook – still resilient at SGD293.8m – comprises jobs from the following sectors: O&G (49%), infrastructure (43%), and M&M (8%). We believe that the growing order intake from the infrastructure and M&M segments will offset the softening in the O&G segment in 2H20.
- **Management declared an interim DPS of SGD0.0125,** due to its healthy operating cash flow of SGD33.9m in 1H20 and cash balance of SGD64.6m. The group pared down net debts swiftly, from SGD44.5m in 4Q19 to SGD21.1m as at end-2Q20. The interim DPS comes as no surprise, and we continue to believe that its full-year DPS will be the same as FY19's, at SGD0.0275.
- **Maintain BUY.** We continue to believe that CSE's 2H20 results will be solid. Its acquisition plan remains intact. With its 1H20 results being better than previously anticipated, we are cautiously optimistic on this company's outlook. Our TP of SGD0.60 is based 10.8x FY21F P/E, which is also its 3-year mean.

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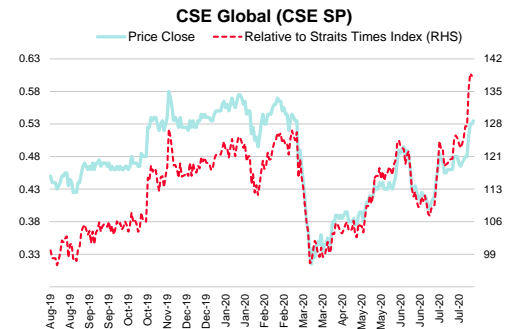


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.7)	20.2	30.5	(1.8)	21.6
Relative	18.7	26.0	32.8	19.8	41.7
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	489	518	539
Recurring net profit (SGDm)	20	24	25	28	29
Recurring net profit growth (%)	51.2	19.6	4.3	11.7	4.3
Recurring P/E (x)	13.64	11.32	10.83	9.70	9.30
P/B (x)	1.6	1.5	1.4	1.3	1.3
P/CF (x)	5.56	23.24	5.73	6.13	5.76
Dividend Yield (%)	5.1	5.1	5.1	5.1	5.1
EV/EBITDA (x)	6.53	6.97	5.84	5.08	4.51
Return on average equity (%)	11.6	13.8	13.8	14.4	14.0
Net debt to equity (%)	net cash	25.3	12.1	2.0	net cash

Source: Company data. RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

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	0.06	0.06
Technology	DPS	0.03	0.03	0.03	0.03	0.03
CSE Global	BVPS	0.34	0.35	0.37	0.40	0.43
CSE SP	Return on average equity (%)	11.6	13.8	13.8	14.4	14.0
Buy						
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
10.8x forward FY21F PE	Recurring P/E (x)	13.64	11.32	10.83	9.70	9.30
	P/B (x)	1.6	1.5	1.4	1.3	1.3
	FCF Yield (%)	15.6	0.5	14.5	13.4	14.4
	Dividend Yield (%)	5.1	5.1	5.1	5.1	5.1
	EV/EBITDA (x)	6.53	6.97	5.84	5.08	4.51
	EV/EBIT (x)	8.34	9.95	8.59	7.34	6.51
Key drivers	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Large contract wins;	Total turnover	373	452	489	518	539
ii. Strong orderbook growth;	Gross profit	104	124	138	147	153
iii. Potential yield-accretive acquisitions;	EBITDA	36	45	50	54	56
iv. Attractive dividend yields	Depreciation and amortisation	(8)	(14)	(16)	(17)	(17)
	Operating profit	28	32	34	38	39
	Net interest	(1)	(2)	(2)	(2)	(2)
	Pre-tax profit	28	30	32	36	37
	Taxation	(7)	(6)	(7)	(8)	(8)
	Reported net profit	20	24	25	28	29
	Recurring net profit	20	24	25	28	29
Key risks	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Oil price volatility;	Change in working capital	19.7	(26.6)	6.1	(0.4)	0.7
ii. Economic slowdown;	Cash flow from operations	49.3	11.7	47.4	44.3	47.2
iii. FX risks;	Capex	(6.6)	(10.5)	(8.0)	(8.0)	(8.0)
iv. Declining order intake;	Cash flow from investing activities	(7.5)	(85.3)	(11.6)	(11.7)	(11.7)
v. Lower margins;	Dividends paid	(14.2)	(14.0)	(14.0)	(14.0)	(14.0)
vi. Execution risks.	Cash flow from financing activities	(12.8)	50.9	(36.7)	(29.0)	(14.0)
	Cash at beginning of period	46.9	74.1	58.6	57.7	61.3
	Net change in cash	29.1	(22.7)	(0.9)	3.6	21.5
	Ending balance cash	75.8	50.5	57.7	61.3	82.9
Company Profile	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
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.	Total cash and equivalents	74	59	58	61	83
	Tangible fixed assets	28	58	59	59	58
	Total assets	269	396	390	394	412
	Short-term debt	36	73	50	35	35
	Total long-term debt	0	30	30	30	30
	Total liabilities	97	220	203	192	196
	Total equity	172	176	187	202	217
	Total liabilities & equity	269	396	390	394	412
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	3.1	21.0	8.2	6.0	4.0
	Recurrent EPS growth (%)	52.2	20.5	4.5	11.7	4.3
	Gross margin (%)	27.7	27.4	28.3	28.3	28.3
	Operating EBITDA margin (%)	9.7	10.1	10.3	10.5	10.4
	Net profit margin (%)	5.4	5.3	5.1	5.4	5.4
	Dividend payout ratio (%)	70.4	58.1	55.7	49.8	47.8
	Capex/sales (%)	1.8	2.3	1.6	1.5	1.5
	Interest cover (x)	34.1	14.9	14.2	19.2	19.9

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-06-03	Buy	0.54	0.49
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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