

16 January 2019

Technology | Software & Services

CSE Global (CSE SP)

Buy (Maintained)

CSE Wins On Home Ground; Maintain BUY

Target Price (Return) SGD0.59 (+40%)
 Price: SGD0.42
 Market Cap: USD157.9m
 Avg Daily Turnover (SGD/USD) 0.9m/0.7m

- Maintain BUY and DCF-backed TP of SGD0.59, 40% upside, plus 7% yield.** CSE Global secured SGD84.8m infrastructure projects on home ground, bringing the segment's order intake to SGD150.5m (+43.6% YoY) for FY18. The orders included government contracts for the provision of communication, and security solutions that involve surveillance work. Taking into consideration the typical quarterly infrastructure order intake of SGD20-25m, we estimated the large orders to be SGD59-64m, consisting of the maintenance portion that should be recognised over several years. Supposing 70-80% of the orders are project revenue, we estimate that project component to be recognised over the next few years should about SGD43-49m.
- New projects in the pipeline to boost orderbook.** CSE is currently pursuing a few more projects in the infrastructure space. Recent contract wins are testament to its capabilities of providing mission-critical solutions. We are optimistic that it will be able to continue its winning streak.
- Working on accretive acquisitions.** We understand that CSE is currently working with target companies, and remain hopeful that the acquisitions will be finalised in 1H19. On 10 Jan 2019, it announced the acquisition of Blackstar Services for USD2.375m. This acquisition should boost product offering for the oil & gas segment.
- Sound balance sheet and attractive 6.5% dividend yield.** Net cash of SGD 34.4m as at end-Sep 2018 should support its dividend payout, and the execution of its expansion plan.
- Expect 4Q18 results to be in line, if not, better.** We believe that short-term volatility in the oil prices would not affect CSE's oil & gas segment, as business flow remains stable. However, we do not foresee major greenfield projects coming on-stream anytime soon. Despite the lack of mega projects, we still see growth in the area of smaller brownfield and greenfield projects.

We keep our forecasts unchanged, as large greenfield projects (SGD42m) secured in 2017 are near completion, and new contracts secured (c.SGD59-64m) would likely offset the absence of revenue from the oil & gas segment as earlier forecasted. Overall, we expect 4Q18 and FY18 results to be in line with our forecasts, and do not expect any negative surprises.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	317.8	362.4	368.2	380.6	390.2
Recurring net profit (SGDm)	21.2	13.3	16.8	19.0	20.6
Recurring net profit growth (%)	(32.1)	(37.3)	26.5	12.7	8.7
Recurring P/E (x)	10.1	16.1	12.7	11.3	10.4
P/BV (x)	0.9	1.2	1.2	1.2	1.1
P/CF (x)	3.7	na	7.1	8.5	7.8
Dividend Yield (%)	6.5	6.5	6.5	6.5	6.5
EV/EBITDA (x)	4.1	3.5	6.0	5.5	4.9
ROE (%)	8.4	7.6	9.6	10.5	11.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	39.4	na	28.1	29.3	31.7

Source: Company data, RHB

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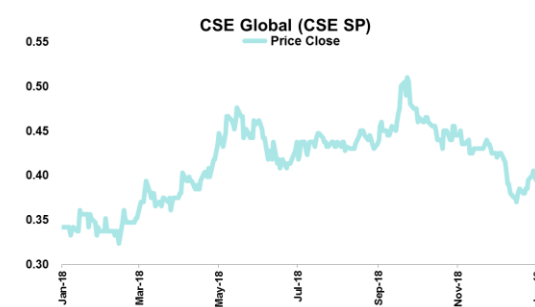


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.5	(1.2)	(8.7)	(6.7)	18.1
Relative	5.8	(5.6)	(14.2)	(5.3)	27.2
52-wk Price low/high (SGD)	0.34 – 0.52				



Source: Bloomberg

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