

17 July 2020

Technology | Software & Services

## CSE Global (CSE SP)

**Buy** (Maintained)

### Strong Backer Brings More Stability; Maintain BUY

Target Price (Return): SGD0.54 (+17%)  
 Price: SGD0.46  
 Market Cap: USD169m  
 Avg Daily Turnover (SGD/USD) 2.43m/1.74m

- Maintain BUY, unchanged P/E-based TP of SGD0.54, 17% upside with 6% FY20F yield.** Temasek is now CSE Global's substantial shareholder, owning 25.03% after acquiring the stake from Serba Dinamik (SDH MK, BUY, TP: MYR2.55) at SGD0.45 per share last week. This marks a positive transition for the company, and we remain upbeat on the stock.
- Overhang has been removed.** Serba Dinamik's investment in the company in 2018 led to investor concerns over CSE's direction ahead. However, expectations of a collaboration between the two companies were not realised. Through the married deal with Serba Dinamik (completed on 7 Jul), Temasek subsidiary Heliconia Capital Management has emerged as the new substantial shareholder. We deem this news as positive for the medium term, premised on Temasek's solid credentials as well as what the Singaporean Government's investment arm can offer – CSE may be able to tap on the former's network, which may also facilitate M&A deals.
- Oil prices are stabilising, but...** On 7 Jul, the US Energy Information Administration (EIA) lifted its outlook for crude oil prices by USD4.00/bbl for 2H20F, and by USD2.00/bbl for 2021F. This is based on expectations of growing demand – after COVID-19-related lockdowns are lifted – as well as OPEC+ production cuts. If oil prices stabilise, the flow of recurring business should be more stable in 2H20. In our 8 Apr report titled [CSE Global: Temporary Disruption; Still BUY](#), we wrote that the pandemic may be subdued in 2H20. However, the situation is still very fluid. At present, daily new COVID-19 cases remain high, potential second and third waves of infection are surfacing, and some places are heading for or have already implemented a second lockdown. If the situation persists, demand for oil will remain low as road and air traffic will still be depressed, until a vaccine is found. The oil & gas segment accounts for 57% of CSE's 1Q20 orderbook.
- Some impact in 2Q20.** CSE expects 2Q20 numbers to be impacted, due to lockdown measures and low oil prices. We expect to see a decline in revenue recognition on slower project execution, a slower flow of orders, and margin pressure as customers turn cautious about their budgets. The situation may be prolonged, as the current environment remains undesirable.
- Growth strategy intact.** Despite the pandemic, CSE's acquisition strategy remains intact – and such exercises may be carried out at a slower pace. We are likely to see acquisitions in the oil & gas or infrastructure space in either the US, Europe, or Australia/New Zealand. With a positive cash flow and a net gearing of only 0.18x, we do not see any issue regarding funding for growth. Moreover, CSE now has Temasek as a substantial shareholder, which may support the group's future funding needs for acquisitions.
- BUY on cheap valuation.** We expect QoQ earnings growth in 2Q20 to be somewhat tepid. With its robust orderbook of SGD302.7m and the earnings-accretive acquisitions CSE made last year, we continue to believe its FY20F dividend will be sustainable – and maintain our projections. Our TP of SGD0.54 implies 10.5x FY21F P/E.

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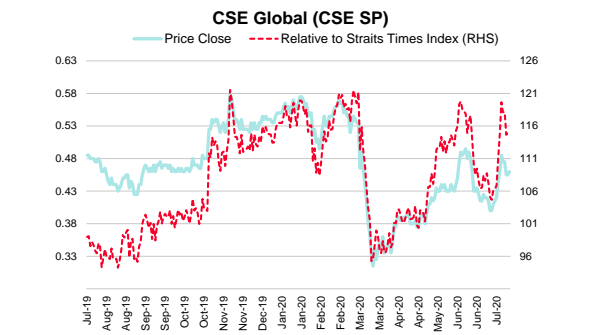


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.4)	7.0	19.5	(18.6)	(4.2)
Relative	1.4	5.7	17.8	0.1	16.7
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	453	496	539
Recurring net profit (SGDm)	20	24	23	26	29
Recurring net profit growth (%)	51.2	19.6	(4.4)	14.0	11.6
Recurring P/E (x)	11.73	9.73	10.16	8.92	7.99
P/B (x)	1.4	1.3	1.3	1.2	1.1
P/CF (x)	4.78	19.98	4.65	5.67	5.23
Dividend Yield (%)	6.0	6.0	6.0	6.0	6.0
EV/EBITDA (x)	5.48	6.13	5.23	4.48	3.80
Return on average equity (%)	11.6	13.8	12.7	13.7	14.2
Net debt to equity (%)	net cash	25.3	10.7	2.2	net cash

Source: Company data, RHB

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## 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	0.05	0.06
Technology	DPS	0.03	0.03	0.03	0.03	0.03
<b>CSE Global</b>	BVPS	0.34	0.35	0.36	0.39	0.42
CSE SP	Return on average equity (%)	11.6	13.8	12.7	13.7	14.2
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
<b>Valuation basis</b>	Recurring P/E (x)	11.73	9.73	10.16	8.92	7.99
12x FY20F P/E	P/B (x)	1.4	1.3	1.3	1.2	1.1
	FCF Yield (%)	18.1	0.5	18.1	14.2	15.7
	Dividend Yield (%)	6.0	6.0	6.0	6.0	6.0
	EV/EBITDA (x)	5.48	6.13	5.23	4.48	3.80
	EV/EBIT (x)	6.99	8.75	7.85	6.54	5.44
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	373	452	453	496	539
	Gross profit	104	124	122	134	148
	EBITDA	36	45	48	53	58
	Depreciation and amortisation	(8)	(14)	(16)	(17)	(17)
	Operating profit	28	32	32	36	40
	Net interest	(1)	(2)	(3)	(3)	(3)
	Pre-tax profit	28	30	29	34	37
	Taxation	(7)	(6)	(6)	(7)	(8)
	Reported net profit	20	24	23	26	29
	Recurring net profit	20	24	23	26	29
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	19.7	(26.6)	11.1	(1.7)	(1.9)
	Cash flow from operations	49.3	11.7	50.2	41.2	44.7
	Capex	(6.6)	(10.5)	(8.0)	(8.0)	(8.0)
	Cash flow from investing activities	(7.5)	(85.3)	(11.6)	(11.7)	(11.7)
	Dividends paid	(14.2)	(14.0)	(14.0)	(14.0)	(14.0)
	Cash flow from financing activities	(12.8)	50.9	(14.0)	(14.0)	(14.0)
	Cash at beginning of period	46.9	74.1	58.6	83.3	98.8
	Net change in cash	29.1	(22.7)	24.7	15.5	19.0
	Ending balance cash	75.8	50.5	83.3	98.8	117.8
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	74	59	83	99	118
	Tangible fixed assets	28	58	59	59	58
	Total assets	269	396	406	426	447
	Short-term debt	36	73	73	73	73
	Total long-term debt	0	30	30	30	30
	Total liabilities	97	220	221	228	234
	Total equity	172	176	185	198	213
	Total liabilities & equity	269	396	406	426	447
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	3.1	21.0	0.3	9.4	8.8
	Recurrent EPS growth (%)	52.2	20.5	(4.2)	14.0	11.6
	Gross margin (%)	27.7	27.4	27.0	27.0	27.4
	Operating EBITDA margin (%)	9.7	10.1	10.7	10.7	10.7
	Net profit margin (%)	5.4	5.3	5.1	5.3	5.4
	Dividend payout ratio (%)	70.4	58.1	60.8	53.3	47.8
	Capex/sales (%)	1.8	2.3	1.8	1.6	1.5
	Interest cover (x)	34.1	14.9	10.4	11.8	13.0

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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Analyst	Company
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