

28 February 2020

Technology | Software & Services

CSE Global (CSE SP)

Buy (Maintained)

Record Order Intake; Maintain BUY

Target Price (Return): SGD0.73 (33%)
 Price: SGD0.55
 Market Cap: USD198m
 Avg Daily Turnover (SGD/USD) 0.87m/0.64m

- **Maintain BUY with new DCF-backed TP of SGD0.73 from SGD0.69, 33% upside plus 5% yield.** FY19 net profit was SGD24.1m (+19.6% YoY) on the back of higher revenue (FY19: SGD451.2m, FY18: SGD373.5m) as a result of improved performance in the group's operations, and contribution from the Volta acquisitions. CSE Global has a record order intake of SGD578.8m (+52.1% YoY) in FY19, giving it a robust orderbook of SGD307m (+70.5% YoY) into FY20F.
- **4Q19 net profit surged 60.1% YoY to SGD8.1m.** The group reported revenue growth of 57.7% YoY to SGD156.6m in 4Q19 on improvements in all the business segments (oil & gas, infrastructure, and mining & mineral) across all regions. In line with revenue growth, gross profit in 4Q19 rose 47.1% YoY to SGD44m. Due to a higher contribution of lower margin infrastructure projects, 4Q19 gross margin fell by 2.1ppts to 28.1%. Due to business expansion, operating expenses increased by 38.6% to SGD30.6m, which led to operating profit of SGD10m (+27.2% YoY) and PATMI of SGD8.1m.
- **FY19 net profit rose 19.6% YoY to SGD24.1m.** Driven by higher contribution from the oil & gas and infrastructure segments in the US and Asia-Pacific region, FY19 revenue grew by 21% YoY to SGD451.8m. With steady gross and net margins of 27.4% and 5.3%, gross and net profits rose by 19.4% and 19.6% YoY to SGD123.7m and SGD24.1m respectively, in line with our forecast.

Management has guided for gross and net profit margins to be 27-28% and 5-6% as more sustainable levels going forward. It intends to keep DPS at 2.75 SG cents unchanged.

- **Robust orderbook and business expansion to grow bottomline.** FY19 orderbook was SGD578.8m (+52.1% YoY), led by growth in flow orders, the inclusion of Volta's orders, as well as two large projects secured for the oil & gas segment. This brought backlog orders to SGD307.3m. We expect larger size contract wins and a steady stream of flow orders in the near-term as the order intake momentum remained high.

In addition to organic growth, we think that CSE Global is likely to continue its expansion plan and see its footprint widen in the UK after the acquisition of Chatterbox Ltd last financial year.

- **We raise our TP to SGD0.73, implying 12.7x FY20F P/E.** This counter is currently trading at 9.5x FY20F P/E, with an attractive yield of 5%. We lower our FY20-22 earnings forecasts between 1% and 3% to account for higher revenue offset by higher expenses.

Analysts

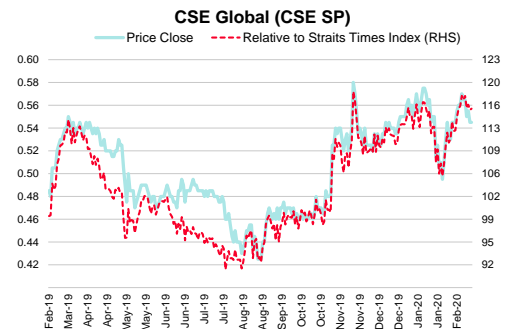
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.9)	(0.9)	0.9	28.2	12.4
Relative	2.6	2.9	4.1	26.8	16.7
52-wk Price low/high (SGD)	0.43 – 0.58				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	373	452	533	551	567
Recurring net profit (SGDm)	22	23	29	30	31
Recurring net profit growth (%)	68.8	1.7	27.9	4.1	3.4
Recurring P/E (x)	12.44	12.15	9.48	9.11	8.82
P/B (x)	1.6	1.6	1.5	1.4	1.2
P/CF (x)	5.61	23.67	5.73	5.73	5.51
Dividend Yield (%)	5.0	5.0	5.0	5.0	5.0
EV/EBITDA (x)	6.59	6.67	5.27	4.71	4.17
Return on average equity (%)	13.0	11.9	15.9	15.2	14.5
Net debt to equity (%)	(22.0)	25.3	11.4	(0.4)	(11.2)

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.04	0.04	0.06	0.06	0.06
Technology	DPS	0.03	0.03	0.03	0.03	0.03
CSE Global	BVPS	0.33	0.34	0.37	0.40	0.44
CSE SP	Return on average equity (%)	13.0	11.9	15.9	15.2	14.5
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	12.44	12.15	9.48	9.11	8.82
DCF-derived TP of SGD0.73	P/B (x)	1.6	1.6	1.5	1.4	1.2
	FCF Yield (%)	15.5	0.5	14.6	14.6	15.2
Key drivers	Dividend Yield (%)	5.0	5.0	5.0	5.0	5.0
i. Large contract wins;	EV/EBITDA (x)	6.59	6.67	5.27	4.71	4.17
ii. Strong order book;	EV/EBIT (x)	8.37	9.30	7.42	6.62	5.87
iii. Potential accretive acquisitions;						
iv. Attractive dividend yield						
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	373	452	533	551	567
i. Oil price volatility;	Gross profit	104	124	146	151	155
ii. Economic slowdown;	EBITDA	37	48	57	59	60
iii. FX risks;	Depreciation and amortisation	(8)	(14)	(16)	(17)	(18)
iv. Declining order intake;	Operating profit	29	35	40	42	43
v. Lower margins;	Net interest	(1)	(2)	(3)	(3)	(3)
vi. Execution risks.	Pre-tax profit	28	30	37	39	40
	Taxation	(7)	(6)	(8)	(9)	(9)
Company Profile	Reported net profit	22	21	29	30	31
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.	Recurring net profit	22	23	29	30	31
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	19.7	(26.6)	2.7	1.0	1.3
	Cash flow from operations	49.8	11.7	48.3	48.3	50.2
	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	81.4	104.1
	Net change in cash	29.6	(22.7)	22.8	22.6	24.5
	Ending balance cash	76.4	50.5	81.4	104.1	128.6
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	74	59	81	104	129
	Tangible fixed assets	28	58	59	58	57
	Total assets	269	396	425	444	464
	Short-term debt	36	69	69	69	69
	Total long-term debt	0	34	34	34	34
	Total liabilities	97	220	233	236	239
	Total equity	172	176	192	208	225
	Total liabilities & equity	269	396	425	444	464
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	3.1	21.0	18.0	3.3	3.0
	Recurrent EPS growth (%)	70.0	2.4	28.1	4.1	3.4
	Gross margin (%)	27.7	27.4	27.4	27.4	27.4
	Operating EBITDA margin (%)	9.9	10.7	10.6	10.7	10.7
	Net profit margin (%)	6.0	4.6	5.5	5.5	5.5
	Dividend payout ratio (%)	63.1	67.5	47.8	46.0	44.5
	Capex/sales (%)	1.8	2.3	1.5	1.5	1.4
	Interest cover (x)	34.7	16.1	12.6	13.0	13.4

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-10	Buy	0.69	0.53
2019-11-08	Buy	0.69	0.52
2019-11-01	Buy	0.69	0.54
2019-09-04	Buy	0.69	0.47
2019-08-16	Buy	0.61	0.45
2019-05-08	Buy	0.61	0.49
2019-03-26	Buy	0.61	0.55
2019-02-22	Buy	0.60	0.47
2019-01-16	Buy	0.59	0.43

Source: RHB, Bloomberg

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