

26 March 2019

Technology | Software & Services

CSE Global (CSE SP)

Buy (Maintained)

Buying Into Australia; Stay BUY

Target Price (Return)	SGD0.61 (+12%)
Price:	SGD0.545
Market Cap:	USD205m
Avg Daily Turnover (SGD/USD)	1m/0.7m

- **Maintain BUY, with new DCF-based TP of SGD0.61 from SGD0.60, 12% upside plus 5% yield.** CSE Global announced last Friday that it entered into a share purchase agreement to acquire 100% of RCS Telecommunications' Pty Ltd through its indirect wholly-owned subsidiary, CSE Crosscom Pty Ltd. With operations in Queensland, RCS provides communications networking and 2-way radio systems design & implementation.
- **Proposed acquisition of RCS for AUD11.64m.** The aggregate consideration – approximately SGD11.26m – should be satisfied entirely in cash. Based on RCS' unaudited financial statement as at 30 Jun 2018, net tangible asset value stood at AUD7.1m. This value of the transaction is at c.1.64x Price-to-NTA. If we assumed the acquisition to be around 8-11x P/E, we are looking at 5-7% (annualised) earnings accretion in FY19F, excluding the initial growth forecast.
- **More M&A in the pipeline.** The acquisition of RCS helps the group to strengthen its footprint in Queensland, Australia. We are expecting 1-2 more acquisition(s) and deal size(s) could potentially be more substantial than this. However, we think that this would likely be out of Australia, as we understand management is actively seeking expansion in the oil & gas segment in the US, as well as strengthening its Singapore infrastructure segment.
- **Positive on this counter.** Healthy order intake and stable margins are setting the company's earnings growth on an upward trajectory. Coupled with management's appetite for expansion through earnings accretive M&A, we remain confident this counter should continue to perform well in the near term. With the recent acquisition of RCS, we lift our FY19F-23F NPAT by 4-6%. As such, YoY NPAT growth for FY19F-20F is about 13%.
- **Maintain BUY.** We lifted our DCF-backed TP to SGD0.61 from SGD0.60, reflecting 13.7x FY19F P/E. It is currently trading at 12.3x FY19F P/E, with an attractive dividend yield of 5%.

Key downside risks include oil price volatility, economic slowdown, forex risks, declining order intake, lower margins and execution risks.

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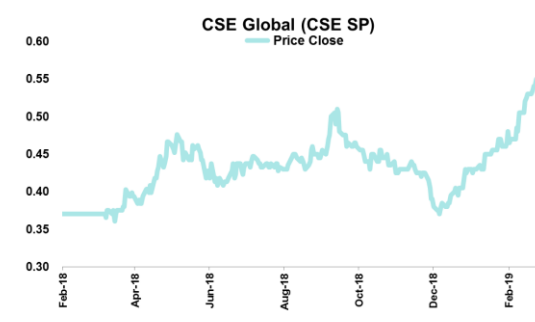


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	43.4	16.0	45.3	18.5	41.5
Relative	39.9	18.9	41.2	20.3	48.6
52-wk Price low/high (SGD)	0.37 – 0.56				



Source: Bloomberg

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)	20.9	13.8	12.3	10.9	10.4
P/BV (x)	1.6	1.6	1.5	1.5	1.4
P/CF (x)	na	5.9	9.6	8.7	8.1
Dividend Yield (%)	5.0	5.0	5.0	5.0	5.0
EV/EBITDA (x)	23.2	7.0	6.2	5.3	4.8
ROE (%)	7.6	11.4	12.2	13.0	12.8
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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