

CSE Global (CSE SP)

Not Rated

Electrification Unit And Acquisitions Driving Growth

- **Exposure to global growth across diversified segments.** CSE Global offers exposure to the energy, infrastructure, mining & minerals sectors across the US, UK, Singapore, Australia, and New Zealand. The stock is a play on critical communications and infrastructure development. It is also diversifying into green energy. Growth is driven by its current strong orderbook, especially the electrification segment and acquisitions in the communications segment. The stock trades at 13x FY23 P/E and offers a dividend yield of 6-7%.
- **Registered strong 1H24.** Revenue for 1H24 grew 23% YoY to SGD429m, while net profit grew 36% YoY to SGD15m. Revenue growth was driven by the electrification segment that saw an uplift by 32% YoY to SGD217m, while the automation and communication segments rose 26% YoY to SGD99m and 6% YoY to SGD114m. Gross and EBITDA margins remained stable at 27-28% and close to 9%. An interim DPS of 1.25 SG cents was declared, similar to 1H23.
- **Robust orderbook of SGD692m.** CSE's orderbook for 1H24 stood at SGD692m. Order intake continued to be strong at SGD391m, similar to 1H23. Its orderbook is largely accounted for by the electrification segment (SGD395m), followed by automation (SGD191m), and communications (SGD106m). We estimate that about 30% its orderbook will be recognised in the remainder of this year.
- **Driven by infrastructure development and acquisitions.** We see growth driven by both the electrification and communications segments, with automation segment's outlook remaining stable. The electrification segment is driven by infrastructure and renewable energy (RE) development in towns and cities, where there is increasing demand for electricity due to digitisation, IT and automation, more data centres (DCs), adoption of EV, more efficient utility installation, etc, which drives more power grid electrification projects. Growth in the communications segment will be supplemented through acquisitions in the US, where it is looking increase its contribution.
- **New acquisition is earnings accretive.** The group recently announced the USD11.5m acquisition of RFC Wireless Inc, an advanced communication solutions provider from portable and mobile radios to wide area networks and infrastructure. The acquisition is earnings accretive and based on net profit ended 31 Dec 2023, the acquisition will contribute to c.13% of CSE's existing net profit. Its strategy is to acquire and aggregate more of such similar companies across the US to bolster the customer and installed base for its communications business. Such acquisitions will support earnings growth going forward.

Fair Value (Return):

N/A

Price:

SGD0.47

Market Cap:

USD250m

Avg Daily Turnover (SGD/USD)

1.18m/0.88m

Analyst

Alfie Yeo

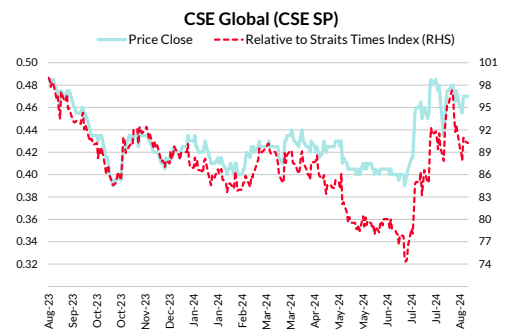
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.3	(2.1)	17.5	10.6	(1.1)
Relative	4.5	(1.2)	15.1	3.5	(7.6)
52-wk Price low/high (SGD)				0.39	-0.49



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Total turnover (SGDm)	452	503	469	558	725
Recurring net profit (SGDm)	22	25	13	(1)	21
Recurring net profit growth (%)	23.6	14.5	(49.5)	(104.9)	-
Recurring P/E (x)	10.86	9.52	18.94	na	13.75
P/B (x)	1.4	1.3	1.3	1.4	1.3
P/CF (x)	20.34	6.03	8.26	26,665.21	5.20
Dividend Yield (%)	8.0	7.9	8.0	6.6	6.6
EV/EBITDA (x)	6.57	5.01	7.20	11.90	5.88
Return on average equity (%)	12.8	13.8	6.7	(0.3)	9.9
Net debt to equity (%)	25.3	20.3	25.5	34.0	35.2

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

27 August 2024

Technology | Software & Services

Financial Exhibits

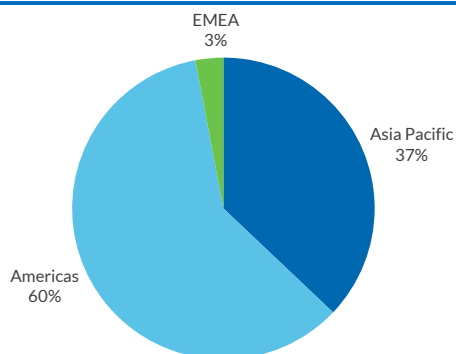
Asia	Financial summary (SGD)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Singapore	Recurring EPS	0.04	0.05	0.02	(0.00)	0.03
Technology	DPS	0.04	0.04	0.04	0.03	0.03
CSE Global	BVPS	0.34	0.37	0.37	0.34	0.35
CSE SP	Return on average equity (%)	12.8	13.8	6.7	(0.3)	9.9
Not Rated						
	Valuation metrics	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Valuation basis	Recurring P/E (x)	10.86	9.52	18.94	na	13.75
N/A	P/B (x)	1.4	1.3	1.3	1.4	1.3
	FCF Yield (%)	0.6	12.6	8.1	(5.8)	13.1
Key drivers	Dividend Yield (%)	8.0	7.9	8.0	6.6	6.6
Expansion of Communications business via acquisitions and more infrastructure development driving demand for Electrification business.	EV/EBITDA (x)	6.57	5.01	7.20	11.90	5.88
	EV/EBIT (x)	9.46	7.61	14.57	40.87	9.55
Key risks	Income statement (SGDm)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Project cost overruns and unexpected cost increases can dampen profitability and margins.	Total turnover	452	503	469	558	725
	Gross profit	124	146	136	146	200
	EBITDA	43	56	40	28	62
	Depreciation and amortisation	(13)	(19)	(20)	(20)	(24)
	Operating profit	30	37	20	8	38
	Net interest	(2)	(3)	(3)	(5)	(10)
	Pre-tax profit	28	33	17	3	28
	Taxation	(6)	(8)	(5)	(3)	(7)
	Reported net profit	22	25	13	(1)	21
	Recurring net profit	22	25	13	(1)	21
Company Profile	Cash flow (SGDm)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
CSE Global (CSE) is a global systems integrator providing customised integrated systems, automation, and communications & security solutions. Key segments include automation, communications, and electrification, which serve the energy, infrastructure and mining & materials sectors. CSE has a presence in 16 countries with 45 offices, and employs more than 1,800 staff across North America, Asia-Pacific, Europe, Middle East, and Africa.	Change in working capital	(26.6)	(10.8)	(6.4)	(21.2)	5.7
	Cash flow from operations	11.8	40.1	29.4	0.0	55.9
	Capex	(10.5)	(9.6)	(9.8)	(15.5)	(17.9)
	Cash flow from investing activities	(82.2)	(9.6)	(15.5)	(45.7)	(24.4)
	Dividends paid	(14.0)	(14.1)	(14.9)	(14.9)	(16.9)
	Cash flow from financing activities	47.8	(32.1)	(18.0)	25.0	(16.8)
	Cash at beginning of period	74.1	58.6	52.5	46.5	34.2
	Net change in cash	(22.5)	(1.7)	(4.1)	(20.7)	14.7
	Ending balance cash	50.7	57.4	48.7	25.1	48.4
	Balance sheet (SGDm)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
	Total cash and equivalents	59	53	47	34	39
	Tangible fixed assets	58	62	62	64	70
	Total investments	0	0	0	0	0
	Total assets	396	402	398	494	598
	Short-term debt	73	65	48	69	96
	Total long-term debt	30	26	47	38	20
	Total liabilities	220	210	206	281	382
	Total equity	176	192	192	212	216
	Total liabilities & equity	396	402	398	494	598
	Key metrics	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
	Revenue growth (%)	19.9	11.3	(6.8)	19.0	30.0
	Recurrent EPS growth (%)	24.6	14.0	(49.7)	(104.4)	0.0
	Gross margin (%)	27.4	29.1	29.0	26.2	27.6
	Operating EBITDA margin (%)	9.6	11.1	8.6	5.0	8.6
	Net profit margin (%)	4.9	5.1	2.7	(0.1)	2.9
	Dividend payout ratio (%)	86.9	76.0	150.6	(3088.8)	91.3
	Capex/sales (%)	2.3	1.9	2.1	2.8	2.5
	Interest cover (x)	14.1	9.8	6.3	1.4	3.6

Source: Company data, RHB

Company Description

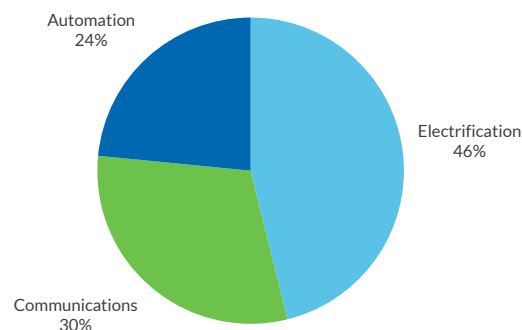
CSE is a systems integrator which provides electrification, communications, and automation to industries globally. The company offers solutions to customers in Asia Pacific, Americas as well as Europe, Middle East, and Africa or EMEA. Customers served range from the energy, infrastructure and mining & mineral industries.

Figure 1: Revenue by geography (FY23)



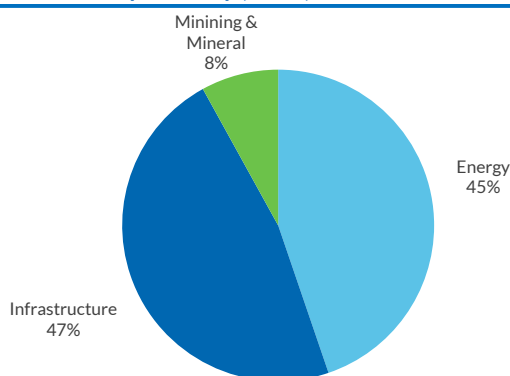
Source: Company data

Figure 2: Revenue by solutions (FY23)



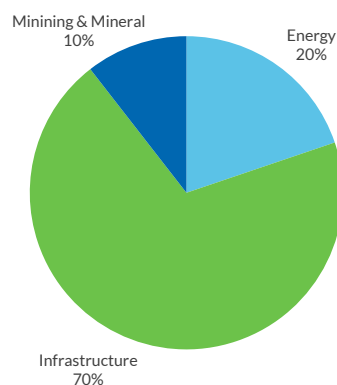
Source: Company data

Figure 3: Revenue by industry (FY23)



Source: Company data

Figure 4: EBIT by industry (FY23)



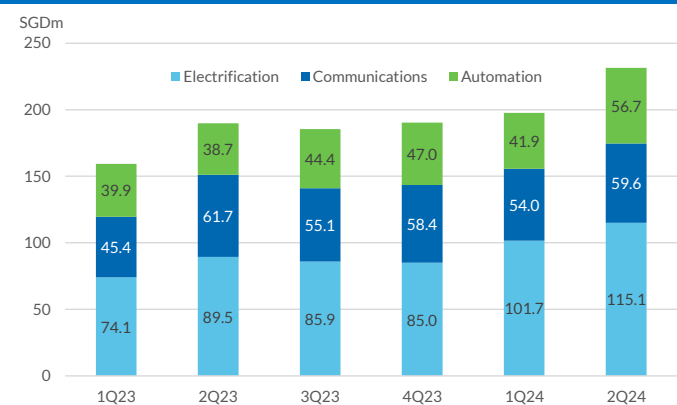
Source: Company data

Key business segments. Electrification solutions provide customers with the design, engineering, procurement, and integration of electrical distribution and power systems for DCs, industrial manufacturing, and utility/energy markets, contributing to the building of electricity grids. These help to facilitate more power and energy required for cities to adopt green solutions, and in turn, support sustainable economies.

In communications, CSE designs communication network systems with technology manufacturers. These include two-way radio communications for permanent and temporary locations to facilitate communications.

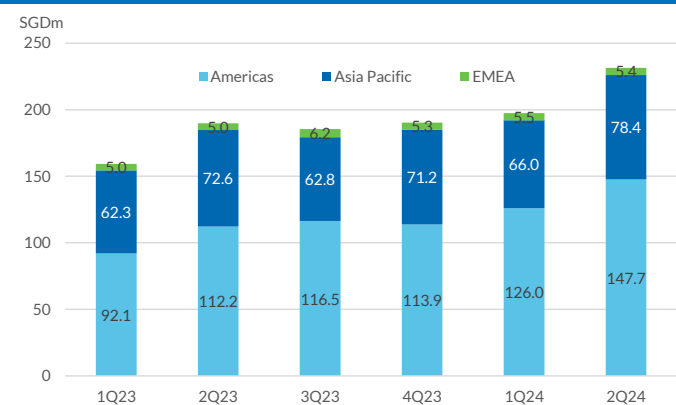
Automation provides automated process and systems supporting efficiency and reducing reliance on human resources. Solutions include electrical and technological control systems for buildings, subsea, wellhead, fire and gas, etc. Recent growth has been driven by the Americas market, electrification solutions and in the infrastructure sector. Management aims to grow further in electrification and via acquisitions of communications solutions in the US.

Figure 5: Quarterly revenue by solutions



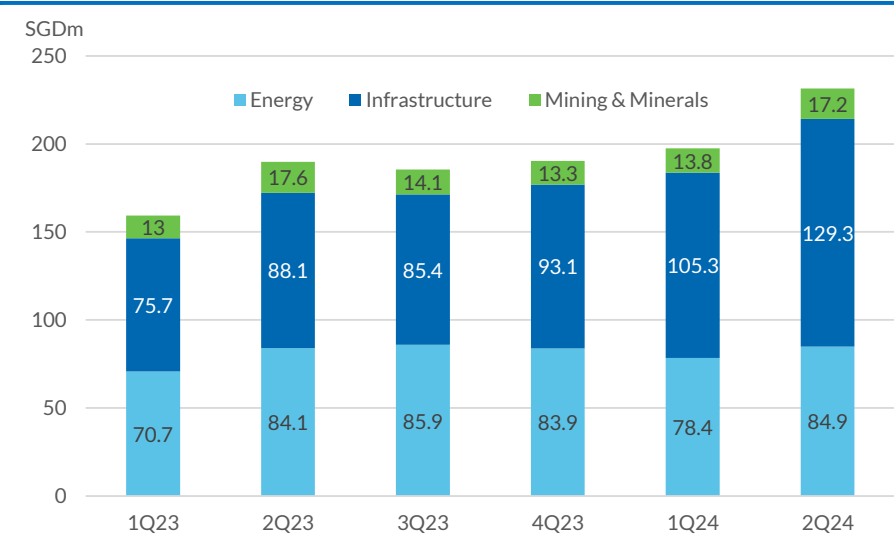
Source: Company data

Figure 6: Quarterly revenue by geography



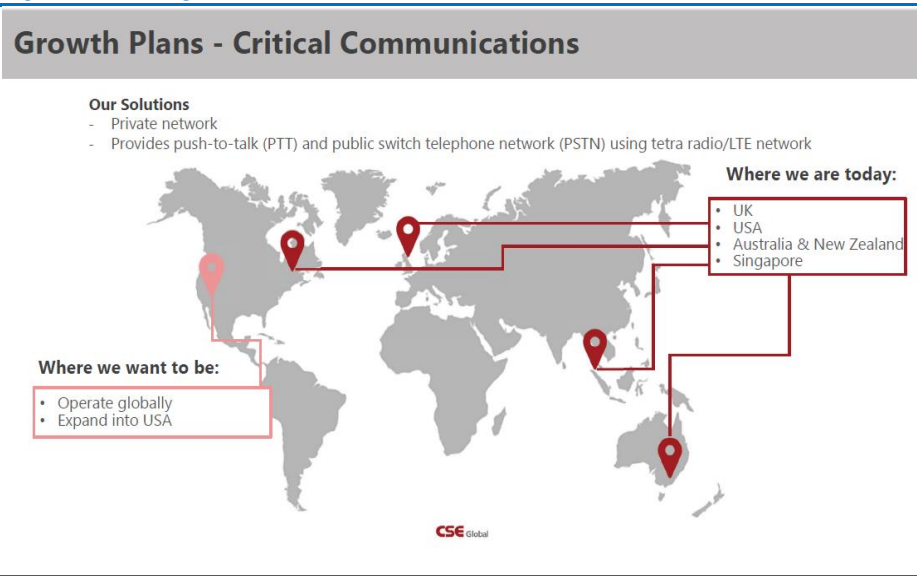
Source: Company data

Figure 7: Quarterly revenue by industry



Source: Company data

Figure 8: Growing via acquisitions into the US



Source: Company data

Valuation

Trading at <1x PEG based on current growth momentum. As a smaller player, CSE trades at a discount to larger international peers in the control & automation as well as oil & gas service sectors. Current forward P/E based on Bloomberg data is approximately 10-11x, while pre-pandemic historical average P/E stands at c.9x. Based on the current growth momentum of 1H24's revenue and earnings at 23% YoY and 36% YoY, PEG is attractive at <1x.

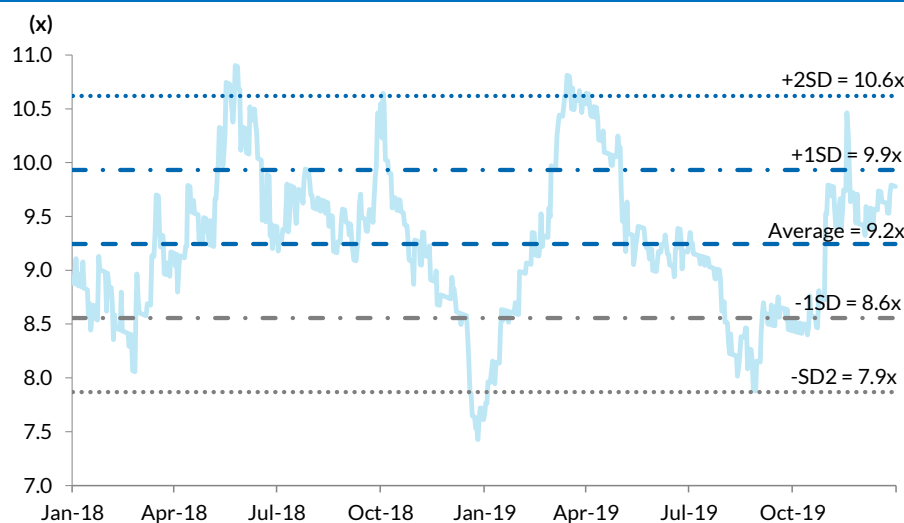
Figure 9: International peer comparison

Company	Market cap (USDm)	Px Last	P/E (Act)	P/E (Yr1)	PE (Yr2)	ROE (%)	Operating margin (%)	Net margin (%)	Dividend yield (%)	Net gearing (x)
CSE Global	249	0.47	11.2x	10.8x	9.1x	11%	5%	3%	5.9%	48.5%
Siemens	147,505	165.32	16.3x	15.6x	14.7x	17%	12%	10.2%	2.8%	70.0%
Honeywell International	130,857	201.42	20.4x	19.9x	18.1x	34%	19%	15.4%	2.1%	81.8%
Johnson Controls International	47,128	70.55	20.1x	19.2x	17.9x	10%	6%	6.9%	2.1%	53.2%
Rockwell Automation	30,131	265.55	21.6x	27.6x	24.7x	30%	19%	15.3%	1.9%	60.4%
ABB	104,921	47.96	27.3x	24.5x	22.7x	29%	15%	11.6%	1.8%	20.7%
Halliburton	27,553	31.21	10.1x	9.9x	8.8x	29%	18%	11.5%	2.2%	71.1%
Baker Hughes	34,223	34.45	22.1x	15.2x	13.2x	13%	9%	7.6%	2.4%	26.7%
Int'l avg			18.9x	18.1x	16.3x	23%	14.4%	11.4%	2.2%	53.1%

Source: Bloomberg

Dividends. CSE has consistently paid out 1.25 and 1.5 SG cents per share in interim and final dividends since FY18. We expect the same level of DPS payout going forward, keeping in mind its need to conserve cash to execute its growth strategy via acquisitions. Dividend yield is attractive at c.6% based on Bloomberg data.

Figure 10: CSE's historical forward P/E mean



Note: Figure 10 provides a reference to CSE's valuation levels during pre-pandemic period from 2018-2019

Source: Company data

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Not Rated:	Stock is not within regular research coverage

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