

Singapore Company Guide

CSE Global

Version 1 | Bloomberg: CSE SP | Reuters: CSES.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Nov 2019

BUY

Last Traded Price (7 Nov 2019): S\$0.53 (STI : 3,285.72)
Price Target 12-mth: S\$0.69 (30% upside) (Prev S\$0.65)

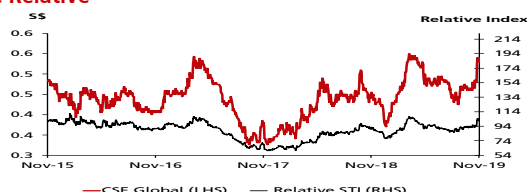
Analyst

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What's New

- Results largely in line; higher-than-expected new orders
- New order intake increased 94.4% y-o-y, 47.4% q-o-q from Volta and organic growth
- Two large oil & gas projects secured recently to contribute to FY20F/21F's earnings
- Revised FY20F/21F earnings forecasts by 6%/11%; maintain BUY with a higher TP of S\$0.69

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2018A	2019F	2020F	2021F
Revenue	377	429	546	610
EBITDA	34.5	42.1	57.8	63.2
Pre-tax Profit	26.1	28.7	38.7	43.5
Net Profit	20.1	22.5	29.3	33.0
Net Pft (Pre Ex.)	20.1	22.5	29.3	33.0
Net Pft Gth (Pre-ex) (%)	nm	11.7	30.5	12.4
EPS (S cts)	3.95	4.41	5.76	6.48
EPS Pre Ex. (S cts)	3.95	4.41	5.76	6.48
EPS Gth Pre Ex (%)	nm	12	31	12
Diluted EPS (S cts)	3.95	4.41	5.76	6.48
Net DPS (S cts)	2.78	2.74	2.74	2.74
BV Per Share (S cts)	33.6	35.3	38.3	42.1
PE (X)	13.4	12.0	9.2	8.2
PE Pre Ex. (X)	13.4	12.0	9.2	8.2
P/Cash Flow (X)	5.7	10.3	9.5	6.7
EV/EBITDA (X)	6.8	7.2	5.1	4.3
Net Div Yield (%)	5.2	5.2	5.2	5.2
P/Book Value (X)	1.6	1.5	1.4	1.3
Net Debt/Equity (X)	CASH	0.2	0.1	0.0
ROAE (%)	11.6	12.8	15.6	16.1
Earnings Rev (%)		0	6	11
Consensus EPS (S cts)		4.50	5.60	5.90
Other Broker Recs:		B: 5	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L

New order intake picking up

Higher order book to drive earnings for FY20F and beyond.

New order intake almost doubled y-o-y, more than we anticipated, on the back of an increase in oil production in Americas. Excluding newly acquired Volta's contribution, we estimate that CSE's new order book in 3Q19 grew by c.40% y-o-y and c.5% q-o-q. With its increase in oil & gas projects, and large contract win announced recently, we anticipate this to contribute positively to CSE's earnings in FY20F and beyond.

We project FY19F-21F earnings CAGR of 21% for CSE, driven by the expected increase in capex of oil majors, and riding on the smart nation initiatives in Singapore and increasing infrastructure projects in Australia. About 90% of CSE's total revenue is generally recurring in nature. This stable stream of revenue, coupled with its high customer retention rate and strong operating cashflows, should support a consistent DPS of c.2.75 Scts p.a., or an attractive yield of c.5%.

Where we differ: We are more optimistic on the outlook for CSE, on the back of higher new order wins driven by continued increase oil production in the US.

Potential catalysts: 1) Large contract wins, 2) Rising oil prices

Valuation:

Maintain BUY with a higher TP of S\$0.69. Our TP is raised to S\$0.69 from S\$0.65 on the back of higher new order intakes. Our TP is pegged to 5-year average PE of 12x on FY20F earnings.

Key Risks to Our View:

Steep drop in oil prices, global macroeconomic slowdown, lack of new order wins.

At A Glance

Issued Capital (m shrs)	508
Mkt. Cap (\$m/US\$m)	269 / 198
Major Shareholders (%)	
Serba Dinamik International	25.2
FMR LLC	10.1
Edgbaston Investment Partners	4.3
Free Float (%)	59.8
3m Avg. Daily Val (US\$m)	0.43
GIC Industry : Information Technology / Software & Services	



Live more, Bank less

WHAT'S NEW

Results largely in line; higher-than-expected new order intake

3Q19 was broadly in line. 3Q19 revenue increased 21.9% y-o-y to S\$111.5m, largely driven by more projects from oil & gas, and mining & minerals which offset the lower infrastructure revenue. A higher revenue mix of lower margins from oil & gas weighed slightly on CSE's 3Q19 margins. 3Q19 net profit increased 17.8% y-o-y due to an increase in oil & gas projects, the inclusion of Volta and a divestment gain of S\$0.7m.

Excluding Volta's cost, EBIT margins would have grown. CSE's reported lower EBIT margins of 6.3% in 3Q19, as compared with the 7.5% in 3Q18. Removing Volta's one-off acquisition expense of S\$0.9m, CSE's EBIT margins would have increased to 8.0%.

Higher new order intake from Volta and organic growth. New order intake increased by 94.4% y-o-y, 47.4% q-o-q on the back of clinching new orders in its oil & gas business and Volta's backlog. In 3Q19, CSE's oil & gas new order intake increased by S\$56.8m (94.4% increase q-o-q). Volta's contribution to this increase in new order intake was c.S\$45m, which includes Volta's backlog as well as its new order intake. Volta's new order intake is estimated to be c.S\$20-30m, largely from its flow business, which is generally recurring in nature.

Higher new order book is expected in 4Q19. 4Q19's new order intake is expected to be about S\$200m, mainly due to the addition of the S\$103.7m large contract wins in October. We expect CSE's FY19F new order intake to be c.S\$580m, increasing 50% y-o-y from S\$384.2m in FY18.

OUTLOOK

OPEC cuts oil demand growth; will support oil prices. OPEC reduced its forecast for global oil demand over the medium term, with oil consumption reaching 103.9 million barrels per day (mbpd) in 2023, down from 104.5mbpd in its forecast last year. It cited efficiency gains and use of other fuels as well as reduced economic activity as key reasons for the lower-than-expected growth in demand. However, to sustain oil prices, OPEC has guided for its own production to decline over the same period.

OPEC expects US shale oil to continue to boom. In the last two years, crude oil production from the US increased by 33.7% to 12.4mbpd and shale oil production increased by 40.6% to 9.0mbpd. In its World Oil Outlook 2019 report released on 5 November 2019, OPEC is expecting the US to overtake OPEC's production by 2024. We continue to be bullish on CSE given its exposure to the oil & gas industry in Americas.

EARNINGS RECOMMENDATION

Raise TP to S\$0.69. Revised up FY20F/FY21F earnings by 6%/11% to account for the higher orderbook. We raised our TP to S\$0.69 from S\$0.65 on the back of an increase in FY20F's earnings.

Two large oil and gas contracts to contribute to earnings in FY20F and beyond. On 29 October 2019, CSE announced two new oil & gas contract wins in Americas worth S\$103.7m. These new orders involve projects ranging from the design, fabrication and construction, to the engineering and integration of offshore oil & gas process control systems. The projects have a longer life of c.1-2 years and are expected to contribute positively to FY20F figures and beyond. These projects have similar profitability to the company's Americas oil & gas projects (c.6-7% EBIT margins). We believe that these projects will contribute about c.S\$3m to its net profit in FY20F.

CSE Global

Quarterly / Interim Income Statement (\$m)

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Revenue	91.4	99.9	111	21.9	11.6
Cost of Goods Sold	(66.4)	(72.1)	(82.6)	24.3	14.5
Gross Profit	25.0	27.8	28.9	15.5	4.0
Other Oper. (Exp)/Inc	(18.5)	(21.6)	(21.8)	17.6	1.1
Operating Profit	6.50	6.23	7.11	9.4	14.1
Other Non Opg (Exp)/Inc	(0.1)	(0.1)	(0.1)	(71.6)	29.6
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.1)	(0.2)	(0.5)	(227.0)	(116.4)
Exceptional Gain/(Loss)	0.0	0.0	0.70	-	nm
Pre-tax Profit	6.29	5.92	7.22	14.8	21.9
Tax	(1.4)	(1.6)	(1.5)	4.8	(8.7)
Minority Interest	0.16	0.21	0.0	nm	nm
Net Profit	5.02	4.49	5.72	14.0	27.4
Net profit bef Except.	5.02	4.49	5.03	0.2	12.0
EBITDA	8.49	8.87	6.99	(17.7)	(21.3)
Margins (%)					
Gross Margins	27.4	27.8	25.9		
Opg Profit Margins	7.1	6.2	6.4		
Net Profit Margins	5.5	4.5	5.1		

Source of all data: Company, DBS Bank

CSE Global

CRITICAL DATA POINTS TO WATCH

Critical Factors

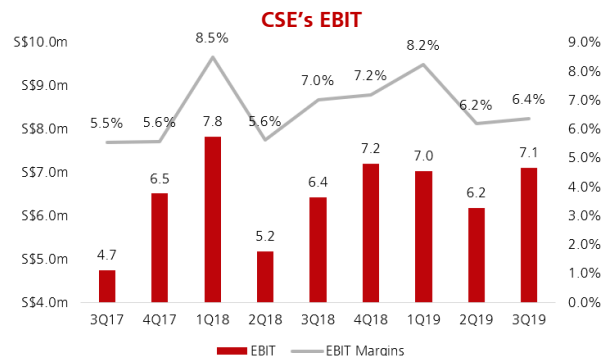
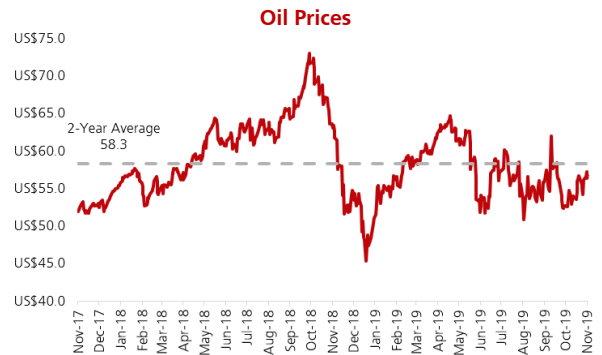
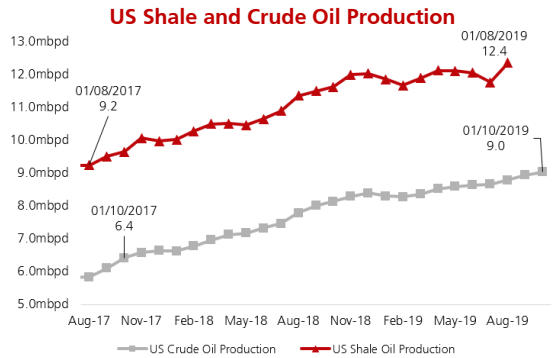
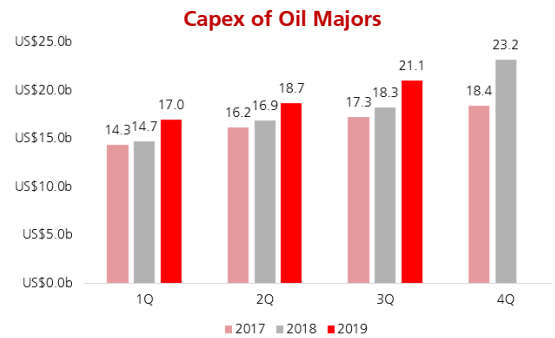
Capex of oil majors. CSE's O&G business segment accounts for c.70% of its revenue, and its large order wins for this segment is largely dependent on the capex of the oil majors. We continue to see oil majors increasing their capex at sustained oil prices of US\$50-60/bbl. An increase in capex could translate into more large contract wins for CSE.

US shale and crude oil production. In the last two years, crude oil production from the US increased by 33.7% to 12.4mbpd while shale oil production increased by 40.6% to 9.0mbpd. As CSE's oil & gas projects are mainly in the US, the production of oil from the US reflects the number of projects which are available to CSE.

Outlook on oil prices. Oil price is a key determinant for the budgeted capex spending of oil majors. When oil majors are bullish on their outlook on oil prices, they will increase their capex for the upstream exploration and production (E&P) of oil. This in turn translates into an increase in projects available for service solutions firms such as CSE. We continue to see oil prices stabilising above the US\$50/bbl level, which is well above the breakeven point for oil majors, and is thus beneficial for CSE.

Order win momentum. On 29 October 2019, CSE announced that it secured two large oil & gas contract in Americas. CSE does not typically announce contract wins unless they are large contracts.

Spending on Singapore's Smart Nation Initiative. Singapore's Smart Nation Initiative will drive spending for process control systems and security systems for the collection, monitoring, and management of data. In late October 2019, HDB announced that it will begin installing c.6,000 digital display panels in housing estates next year as part of the Smart Nation Initiative. The tender for the installation, operation, and management of the display panels will also be launched next year. With the launch of more government projects for its Smart Nation Initiative, CSE could clinch more order wins in its infrastructure segment.



Source: Company, DBS Bank

CSE Global

Balance Sheet:

From net cash to net debt with recent acquisition. CSE mainly relies on short-term loans to fund its operations. The unsecured short-term loans are denominated in SGD, USD, and AUD, where the group has operations in, and bear an interest rate between 2.65% and 3.07% in FY18. Due to its recent acquisition of Volta in September 2019, CSE's borrowings increased to S\$97.9m, turning its net cash position into net debt.

Share Price Drivers:

Contract wins. More contract wins would translate into higher revenue and earnings. As 94% of its 9M19 revenue is generally recurring, we believe that this could be a strong base for its revenue, and large contract wins would lift revenue and earnings further.

Oil prices. Higher, sustained levels of oil prices would translate into more profitability for its oil & gas customers. As such, this would result in the company's customers expanding their exploration and production which would require more services from service providers such as CSE.

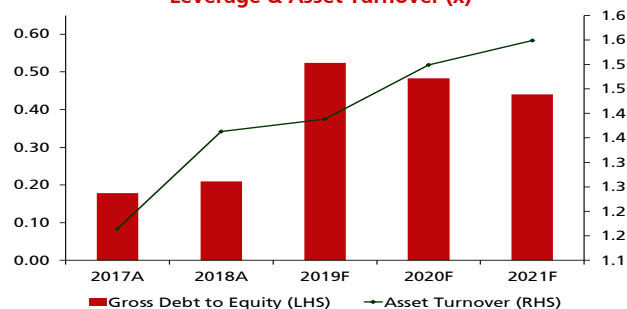
Key Risks:

Global macroeconomic slowdown weighing on oil prices. Major geo-political events (US-China Trade War, Brexit, Japan-Korea Trade Feud, and the Hong Kong Protests) have dragged on longer than anticipated. The International Monetary Fund (IMF) has further downgraded its projections of global growth in 2019 from 3.2% in July to 3.0% in October, citing rising trade and geopolitical tensions.

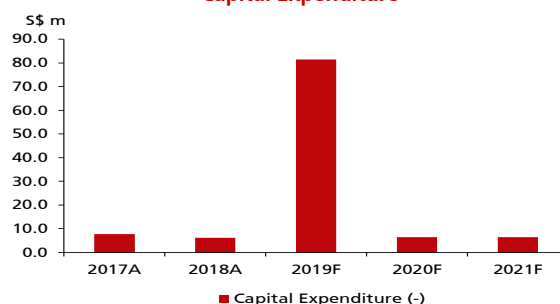
Company Background

CSE Global Limited (CSE) is a system integrator providing automation and telecom solutions to its customers in the oil & gas, mineral & mining and environmental sectors. The company has a presence across the Americas, Australia, Asia, Europe, the Middle East and Africa.

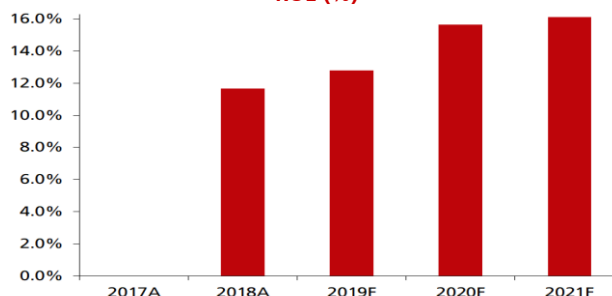
Leverage & Asset Turnover (x)



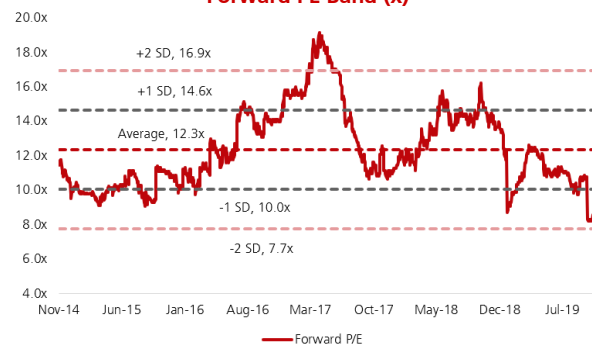
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



CSE Global

Key Assumptions

FY Dec	2017A	2018A	2019F	2020F	2021F
New Order Book Growth	0.33	0.00	0.28	0.18	0.10
EBIT Margins	0.05	0.07	0.07	0.08	0.08

Segmental Breakdown

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenues (\$\$m)					
Oil & Gas	246	251	288	386	442
Infrastructure	90.5	110	103	108	112
Mining & Minerals	25.7	15.7	38.2	52.9	55.7
Total	362	377	429	546	610
EBIT (\$\$m)					
Oil & Gas	4.80	12.0	19.3	28.9	32.7
Infrastructure	15.1	14.6	11.5	12.9	13.9
Mining & Minerals	(0.2)	0.10	0.30	0.0	0.0
Total	19.7	26.7	31.1	41.8	46.6
EBIT Margins (%)					
Oil & Gas	1.9	4.8	6.7	7.5	7.4
Infrastructure	16.7	13.3	11.2	12.0	12.5
Mining & Minerals	(0.8)	0.6	0.8	0.0	0.0
Total	5.4	7.1	7.3	7.7	7.6

Higher new order wins

Income Statement (\$\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	362	377	429	546	610
Cost of Goods Sold	(268)	(272)	(314)	(399)	(446)
Gross Profit	94.1	105	115	148	164
Other Opng (Exp)/Inc	(89.6)	(80.0)	(85.9)	(106)	(117)
Operating Profit	4.53	25.1	29.1	41.8	46.6
Other Non Opg (Exp)/Inc	3.35	1.51	1.17	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.3)	(0.6)	(1.5)	(3.2)	(3.2)
Exceptional Gain/(Loss)	(45.0)	0.0	0.0	0.0	0.0
Pre-tax Profit	(37.4)	26.1	28.7	38.7	43.5
Tax	(9.5)	(6.6)	(6.7)	(9.4)	(10.5)
Minority Interest	1.75	0.66	0.38	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	(45.1)	20.1	22.5	29.3	33.0
Net Profit before Except.	(0.2)	20.1	22.5	29.3	33.0
EBITDA	15.2	34.5	42.1	57.8	63.2
Growth					
Revenue Gth (%)	14.0	4.0	13.8	27.3	11.6
EBITDA Gth (%)	(56.1)	126.5	22.1	37.2	9.4
Opg Profit Gth (%)	(83.2)	454.6	15.9	43.7	11.5
Net Profit Gth (Pre-ex) (%)	nm	nm	11.7	30.5	12.4
Margins & Ratio					
Gross Margins (%)	26.0	27.9	26.8	27.0	26.9
Opg Profit Margin (%)	1.3	6.7	6.8	7.7	7.6
Net Profit Margin (%)	(12.5)	5.3	5.2	5.4	5.4
ROAE (%)	(21.2)	11.6	12.8	15.6	16.1
ROA (%)	(14.5)	7.3	7.3	8.0	8.4
ROCE (%)	(0.2)	9.3	8.6	9.2	9.9
Div Payout Ratio (%)	N/A	70.4	62.2	47.6	42.4
Net Interest Cover (x)	14.2	45.1	19.0	13.3	14.8

Increase in borrowings to fund Volta acquisition

Source: Company, DBS Bank

CSE Global

Quarterly / Interim Income Statement (\$\$m)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	91.4	100	85.4	99.9	111
Cost of Goods Sold	(66.4)	(69.9)	(61.7)	(72.1)	(82.6)
Gross Profit	25.0	30.2	23.7	27.8	28.9
Other Oper. (Exp)/Inc	(18.5)	(23.0)	(17.9)	(21.6)	(21.8)
Operating Profit	6.50	7.29	5.77	6.23	7.11
Other Non Opg (Exp)/Inc	(0.1)	(0.1)	1.27	(0.1)	(0.1)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.1)	(0.1)	(0.3)	(0.2)	(0.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.70
Pre-tax Profit	6.29	7.12	6.71	5.92	7.22
Tax	(1.4)	(2.2)	(1.2)	(1.6)	(1.5)
Minority Interest	0.16	0.19	0.17	0.21	0.0
Net Profit	5.02	5.06	5.73	4.49	5.72
Net profit bef Except.	5.02	5.06	5.73	4.49	5.03
EBITDA	8.49	9.18	9.65	8.87	6.99

Growth

Revenue Gth (%)	(0.7)	9.5	(14.7)	17.0	11.6
EBITDA Gth (%)	20.0	8.2	5.1	(8.1)	(21.3)
Opg Profit Gth (%)	28.8	12.1	(20.8)	8.0	14.1
Net Profit Gth (Pre-ex) (%)	16.1	0.9	13.1	(21.6)	12.0

Margins

Gross Margins (%)	27.4	30.2	27.7	27.8	25.9
Opg Profit Margins (%)	7.1	7.3	6.8	6.2	6.4
Net Profit Margins (%)	5.5	5.1	6.7	4.5	5.1

Balance Sheet (\$\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	28.0	28.2	99.5	91.8	83.5
Invt in Associates & JVs	0.0	0.11	0.11	0.11	0.11
Other LT Assets	31.8	30.3	28.6	26.8	25.1
Cash & ST Invt	46.9	74.1	63.2	71.1	91.0
Inventory	14.6	16.5	18.0	22.8	25.5
Debtors	96.3	81.8	101	129	144
Other Current Assets	66.3	38.1	38.1	38.1	38.1
Total Assets	284	269	349	380	407
ST Debt	31.4	36.1	36.1	36.1	36.1
Creditor	55.4	44.5	57.7	73.3	82.0
Other Current Liab	18.0	15.3	15.3	15.3	15.3
LT Debt	0.0	0.0	58.4	58.4	58.4
Other LT Liabilities	3.37	0.83	0.83	0.83	0.83
Shareholder's Equity	174	171	180	195	214
Minority Interests	1.80	1.10	0.71	0.71	0.71
Total Cap. & Liab.	284	269	349	380	407
Non-Cash Wkg. Capital	104	76.6	84.4	101	110
Net Cash/(Debt)	15.5	37.9	(31.3)	(23.5)	(3.5)
Debtors Turn (avg days)	93.1	86.3	78.0	77.0	81.8
Creditors Turn (avg days)	64.7	69.1	61.8	62.5	66.1
Inventory Turn (avg days)	20.5	21.5	20.8	19.5	20.6
Asset Turnover (x)	1.2	1.4	1.4	1.5	1.5
Current Ratio (x)	2.1	2.2	2.0	2.1	2.2
Quick Ratio (x)	1.4	1.6	1.5	1.6	1.8
Net Debt/Equity (X)	CASH	CASH	0.2	0.1	0.0
Net Debt/Equity ex MI (X)	CASH	CASH	0.2	0.1	0.0
Capex to Debt (%)	24.7	16.9	86.1	6.9	6.9
Z-Score (X)	3.2	4.1	3.0	3.2	NA

Bank borrowings to fund Volta acquisition

Source: Company, DBS Bank

CSE Global

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	(37.4)	26.1	28.7	38.7	43.5
Dep. & Amort.	7.34	7.85	11.8	16.0	16.6
Tax Paid	(4.5)	(8.5)	(6.7)	(9.4)	(10.5)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(32.9)	19.7	(7.8)	(17.0)	(9.1)
Other Operating CF	44.4	2.38	0.0	0.0	0.0
Net Operating CF	(23.0)	47.5	26.1	28.3	40.5
Capital Exp.(net)	(7.8)	(6.1)	(81.4)	(6.5)	(6.5)
Other Invt.(net)	5.99	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(8.7)	(1.3)	0.0	0.0	0.0
Net Investing CF	(10.5)	(7.5)	(81.4)	(6.5)	(6.5)
Div Paid	(14.2)	(14.2)	(14.0)	(14.0)	(14.0)
Chg in Gross Debt	10.4	4.71	58.4	0.0	0.0
Capital Issues	0.0	(3.3)	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(3.8)	(12.8)	44.4	(14.0)	(14.0)
Currency Adjustments	(6.6)	(0.1)	0.0	0.0	0.0
Chg in Cash	(43.9)	27.1	(10.8)	7.82	20.0
Opg CFPS (S cts)	1.90	5.46	6.67	8.90	9.73
Free CFPS (S cts)	(6.0)	8.13	(10.9)	4.28	6.67

Acquisition of Volta

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 Sep 19	0.47	0.65	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: LING Lee Keng

Singapore Research Team

Report contributed by: CHUNG Wei Le

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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