

Singapore Company Update

CSE Global

Bloomberg: CSE SP | Reuters: CSES.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Oct 2020

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BUY

Last Traded Price (22 Oct 2020): S\$0.460 (STI : 2,528.41)

Price Target 12-mth: S\$0.57 (24% upside) (Prev S\$0.61)

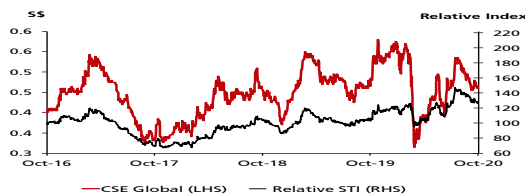
Analyst

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What's New

- Secured S\$91m worth of new orders in 3Q20, down 41.7% y-o-y
- 3Q20's order backlog at S\$267m, +14.8% y-o-y
- Revised FY20F/21F earnings by -16%/-9% on weaker-than-anticipated Oil & Gas new order intake
- Maintain BUY with a lower TP of S\$0.57

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Revenue	452	466	509	548
EBITDA	47.1	48.4	55.2	60.3
Pre-tax Profit	29.8	30.8	35.7	38.9
Net Profit	24.1	24.5	28.3	30.8
Net Pft (Pre Ex.)	26.0	24.5	28.3	30.8
Net Pft Gth (Pre-ex) (%)	11.2	(5.8)	15.8	8.8
EPS (S cts)	4.74	4.82	5.58	6.07
EPS Pre Ex. (S cts)	5.11	4.82	5.58	6.07
EPS Gth Pre Ex (%)	11	(6)	16	9
Diluted EPS (S cts)	4.74	4.82	5.58	6.07
Net DPS (S cts)	2.75	2.75	2.75	2.75
BV Per Share (S cts)	34.7	36.8	39.6	42.9
PE (X)	9.7	9.6	8.2	7.6
PE Pre Ex. (X)	9.0	9.6	8.2	7.6
P/Cash Flow (X)	19.7	4.9	6.2	5.4
EV/EBITDA (X)	6.1	5.5	4.6	3.9
Net Div Yield (%)	6.0	6.0	6.0	6.0
P/Book Value (X)	1.3	1.3	1.2	1.1
Net Debt/Equity (X)	0.3	0.2	0.1	0.0
ROAE (%)	13.8	13.5	14.6	14.7

Earnings Rev (%): (16) (9) (8)
Consensus EPS (S cts): 5.00 5.30 5.40
Other Broker Recs: B: 4 S: 0 H: 1

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



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Interrupted, but not out

Investment Thesis:

Undemanding valuation; improving outlook. CSE is currently trading at 8.2x FY21F PE, which is -0.8 SD below its 4-year historical mean. We believe its outlook is improving with oil prices stabilising at US\$40/bbl and economies gradually reopening.

Oil & Gas segment margins resilient. CSE's Oil & Gas EBIT margins remained resilient in 1H20 at 6.8% despite the turmoil in the oil market.

Mining & Mineral begins to scale up. EBIT margins from its Mining & Minerals segment jumped from 0.6% in 1H19 to 6.1% in 1H20 as the business began to reap efficiencies through scale.

Valuation:

Maintain BUY with a lower TP of S\$0.57 (previously S\$0.61). We revised our FY20F/21F earnings by -16%/-9% mainly due to the weaker-than-expected new order intake for its Oil & Gas business. Our lower TP of S\$0.57 is pegged to 10.2x (4-year average) FY21F earnings.

Where we differ:

We are more optimistic on CSE's earnings and its recovery.

Key Risks to Our View:

Protraction of the COVID-19 pandemic, low oil prices, global macroeconomic slowdown, lack of new order wins.

At A Glance

Issued Capital (m shrs)	511
Mkt. Cap (S\$m/US\$m)	235 / 173
Major Shareholders (%)	
Temasek Holdings Pte Ltd	25.0
FMR LLC	10.0
Free Float (%)	60.2
3m Avg. Daily Val (US\$m)	0.86
GIC Industry : Information Technology / Software & Services	



Live more, Bank less

WHAT'S NEW

Interrupted, but not out

CSE secured S\$91.0m worth of new orders in 3Q20, -41.7% y-o-y. 9M20 overall new order intake formed 73.6% of our FY20F new order intake assumption, which was below our expectations. This was mainly due to weakness in the Oil & Gas segment.

- Lower new order intake was mainly due to lower new order intake at its Oil & Gas segment (-58.6% y-o-y) amid the weak operating environment in the oil & gas industry.
- 3Q19's new order intake was also exceptionally higher due to a one-time consolidation of the new order intake from its acquisition of Volta, which we estimate to be S\$20-25m.

3Q20 order backlog at S\$267.0m, +14.8% y-o-y.

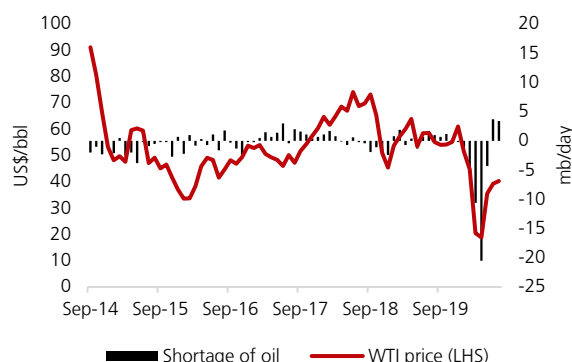
- Order backlog increased due to its Oil & Gas (+24.3% y-o-y) and Mining & Minerals segment (+93.6% y-o-y).

Based on the new order intake and order backlog, we estimate CSE's 3Q20 revenue to be S\$118m, +5.7% y-o-y.

- Our estimated 9M20 revenue formed 71.9% of our initial FY20F revenue.

We believe the worst is over – oil demand-supply rebalanced from June. As governments gradually eased restrictions, allowing consumers to spend and businesses to resume, oil demand bottomed out in May and has been increasing since. In addition, supply rationalisation from oil producers and OPEC+'s accommodation have quickened the oil market's demand-supply rebalance. The oil market tipped into "supply shortage" territory from June and has been trading in a narrow range near US\$40/bbl.

Oil demand-supply regains balance



Source: Energy Intelligence Group, Bloomberg Finance L.P., DBS Bank

Revised FY20F/21F earnings by -16/-9% on weaker-than-anticipated new order intake from its Oil & Gas segment. We are reducing FY20F/21F revenue by 10.3%/7.4% due to weaker-than-anticipated new order intake in its Oil & Gas segment in 3Q20. We are also lowering our FY20F/21F EBIT margins to 7.2%/7.5% from 7.6%/7.6% to reflect the weaker-than-anticipated operating environment.

Maintain BUY with a lower TP of S\$0.57 (previously: S\$0.61).

Despite cutting our earnings, we remain positive on CSE as 1) we like the stock's undemanding valuation of 8.6x FY21F PE (-0.8 SD its 4-year historical mean) and 2) we believe we are past the worst with oil prices stabilising at US\$40/bbl and economies gradually reopening. Our TP of S\$0.57 is pegged to 10.2x (4-year historical mean) FY21F earnings.

Company Background

CSE Global Limited (CSE) is a systems 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.

CSE's 3Q20 Operational Update

New Order Intake (\$\$'m)	3Q20	3Q19	y-o-y	2Q20	q-o-q
Oil & Gas	48.4	117.0	-58.6%	53.8	-10.1%
Infrastructure	30.3	25.1	+20.6%	38.2	-12.5%
Mining & Mineral	12.3	14.1	-12.5%	22.8	-46.0%
Total	91.0	156.1	-41.7%	114.9	-20.8%
Order Backlog (\$\$'m)					
Oil & Gas	118.5	95.4	+24.3%	144.9	-18.2%
Infrastructure	127.7	126.6	+0.9%	125.6	+1.7%
Mining & Mineral	20.7	10.7	+93.6%	23.4	-11.4%
Total	267.0	232.6	+14.8%	293.8	-9.1%

Source: Company

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
New Order Book Growth	0.3%	51.1%	-27.3%	7.4%	8.3%
EBIT Margins	7.6%	7.0%	7.2%	7.5%	7.6%

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (\$m)					
Oil & Gas	248	294	315	313	331
Infrastructure	110	115	96.1	126	135
Mining & Minerals	15.7	42.4	55.6	70.0	82.0
Total	373	452	466	509	548
EBIT (\$m)					
Oil & Gas	13.8	18.4	20.1	20.3	21.5
Infrastructure	14.6	12.9	10.6	13.8	15.1
Mining & Minerals	0.09	0.60	2.78	4.20	4.92
Total	28.5	31.9	33.5	38.4	41.5
EBIT Margins (%)					
Oil & Gas	5.6	6.3	6.4	6.5	6.5
Infrastructure	13.2	11.2	11.0	11.0	11.2
Mining & Minerals	0.6	1.4	5.0	6.0	6.0
Total	7.6	7.1	7.2	7.5	7.6

Income Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	373	452	466	509	548
Cost of Goods Sold	(270)	(328)	(332)	(361)	(388)
Gross Profit	104	124	134	148	159
Other Opng (Exp)/Inc	(75.2)	(91.9)	(101)	(109)	(118)
Operating Profit	28.5	31.8	33.5	38.4	41.5
Other Non Opng (Exp)/Inc	1.45	1.72	0.35	0.35	0.35
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.6)	(1.8)	(3.0)	(3.0)	(3.0)
Exceptional Gain/(Loss)	(1.5)	(1.9)	0.0	0.0	0.0
Pre-tax Profit	27.9	29.8	30.8	35.7	38.9
Tax	(6.7)	(6.1)	(6.8)	(7.9)	(8.5)
Minority Interest	0.66	0.40	0.41	0.47	0.52
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	21.9	24.1	24.5	28.3	30.8
Net Profit before Except.	23.4	26.0	24.5	28.3	30.8
EBITDA	37.7	47.1	48.4	55.2	60.3
Growth					
Revenue Gth (%)	3.1	21.0	3.2	9.0	7.7
EBITDA Gth (%)	24.5	24.9	2.7	14.1	9.2
Opg Profit Gth (%)	45.0	11.8	5.3	14.6	8.2
Net Profit Gth (Pre-ex) (%)	56.3	11.2	(5.8)	15.8	8.8
Margins & Ratio					
Gross Margins (%)	27.7	27.4	28.8	29.1	29.1
Opg Profit Margin (%)	7.6	7.0	7.2	7.5	7.6
Net Profit Margin (%)	5.9	5.3	5.2	5.6	5.6
ROAE (%)	12.7	13.8	13.5	14.6	14.7
ROA (%)	7.9	7.2	6.2	7.0	7.3
ROCE (%)	10.9	9.6	7.2	8.2	8.6
Div Payout Ratio (%)	64.7	58.1	57.1	49.3	45.3
Net Interest Cover (x)	51.1	17.3	11.2	12.8	13.8

Source: Company, DBS Bank

Balance Sheet (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	28.2	72.1	73.3	72.6	69.9
Invt in Associates & JVs	0.11	0.10	0.10	0.10	0.10
Other LT Assets	30.3	62.7	59.4	56.1	52.9
Cash & ST Invt	74.1	50.7	72.1	83.5	100
Inventory	16.5	21.7	19.3	21.0	22.6
Debtors	81.8	128	108	118	127
Other Current Assets	38.1	61.2	61.2	61.2	61.2
Total Assets	269	396	394	413	434
ST Debt	36.1	69.4	69.4	69.4	69.4
Creditor	44.5	71.5	58.7	63.8	68.7
Other Current Liab	15.3	32.0	32.0	32.0	32.0
LT Debt	0.0	33.7	33.7	33.7	33.7
Other LT Liabilities	0.83	13.5	13.5	13.5	13.5
Shareholder's Equity	171	176	187	201	218
Minority Interests	1.10	(0.1)	(0.5)	(1.0)	(1.5)
Total Cap. & Liab.	269	396	394	413	434
Non-Cash Wkg. Capital	76.6	107	98.0	104	110
Net Cash/(Debt)	37.9	(52.5)	(31.1)	(19.6)	(3.1)
Debtors Turn (avg days)	87.0	84.7	92.4	81.2	81.7
Creditors Turn (avg days)	69.6	67.3	74.8	65.0	65.3
Inventory Turn (avg days)	21.7	22.1	23.5	21.4	21.5
Asset Turnover (x)	1.4	1.4	1.2	1.3	1.3
Current Ratio (x)	2.2	1.5	1.6	1.7	1.8
Quick Ratio (x)	1.6	1.0	1.1	1.2	1.3
Net Debt/Equity (X)	CASH	0.3	0.2	0.1	0.0
Net Debt/Equity ex MI (X)	CASH	0.3	0.2	0.1	0.0
Capex to Debt (%)	16.9	69.0	12.1	12.1	12.1
Z-Score (X)	4.2	2.7	3.0	3.0	2.5

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	27.9	29.8	30.8	35.7	38.9
Dep. & Amort.	7.85	13.6	14.6	16.5	18.4
Tax Paid	(8.5)	(4.7)	(6.8)	(7.9)	(8.5)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	19.7	(26.6)	9.25	(6.4)	(5.8)
Other Operating CF	0.58	(0.3)	0.0	0.0	0.0
Net Operating CF	47.5	11.8	47.9	37.9	43.0
Capital Exp.(net)	(6.1)	(71.2)	(12.5)	(12.5)	(12.5)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts 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	(1.3)	(14.1)	0.0	0.0	0.0
Net Investing CF	(7.5)	(85.3)	(12.5)	(12.5)	(12.5)
Div Paid	(14.2)	(14.0)	(14.0)	(14.0)	(14.0)
Chg in Gross Debt	4.71	67.0	0.0	0.0	0.0
Capital Issues	(3.3)	(2.1)	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(12.8)	50.9	(14.0)	(14.0)	(14.0)
Currency Adjustments	(0.1)	(0.9)	0.0	0.0	0.0
Chg in Cash	27.1	(23.4)	21.4	11.5	16.5
Opg CFPS (\$ cts)	5.46	7.57	7.60	8.73	9.59
Free CFPS (\$ cts)	8.13	(11.7)	6.96	5.01	6.00

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	08 Nov 19	0.52	0.69	BUY
2:	28 Feb 20	0.52	0.70	BUY
3:	12 Mar 20	0.44	0.65	BUY
4:	06 May 20	0.41	0.54	BUY
5:	06 Aug 20	0.54	0.61	BUY

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

Source: DBS Bank

Analyst: Lee Keng LING

Singapore Research Team

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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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