

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

13 Nov 2020

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BUY

Last Traded Price (12 Nov 2020): S\$0.450 (STI : 2,711.90)
 Price Target 12-mth: S\$0.55 (23% upside) (Prev S\$0.57)

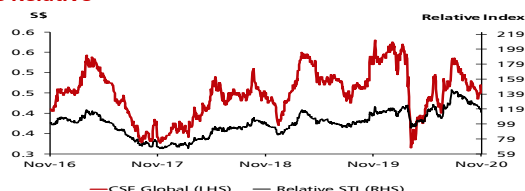
Analyst

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What's New

- 9M20 net profit in line with our expectations, increased 26.4% y-o-y to S\$20.2m
- 9M20 revenue rose 26.5% y-o-y to S\$373m, mainly driven by O&G segment
- O&G EBIT margins under pressure due to lower utilisation and COVID-related inefficiencies
- Maintain BUY with revised TP at S\$0.55

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Revenue	452	468	512	553
EBITDA	47.1	48.2	53.8	60.5
Pre-tax Profit	29.8	30.9	34.8	39.6
Net Profit	24.1	24.5	27.6	31.4
Net Pft (Pre Ex.)	26.0	24.5	27.6	31.4
Net Pft Gth (Pre-ex) (%)	11.2	(5.5)	12.6	13.7
EPS (S cts)	4.74	4.83	5.44	6.18
EPS Pre Ex. (S cts)	5.11	4.83	5.44	6.18
EPS Gth Pre Ex (%)	11	(6)	13	14
Diluted EPS (S cts)	4.74	4.83	5.44	6.18
Net DPS (S cts)	2.75	2.75	2.75	2.75
BV Per Share (S cts)	34.7	36.8	39.5	42.9
PE (X)	9.5	9.3	8.3	7.3
PE Pre Ex. (X)	8.8	9.3	8.3	7.3
P/Cash Flow (X)	19.3	4.7	6.1	5.3
EV/EBITDA (X)	6.0	5.4	4.6	3.8
Net Div Yield (%)	6.1	6.1	6.1	6.1
P/Book Value (X)	1.3	1.2	1.1	1.0
Net Debt/Equity (X)	0.3	0.2	0.1	0.0
ROAE (%)	13.8	13.5	14.3	15.0
Earnings Rev (%):		0	(2)	2
Consensus EPS (S cts):		4.7	5.20	5.5
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.

Attractive entry opportunity

Investment Thesis:

Attractive entry opportunity; dividend yield of 6.1%. CSE is currently trading at 8.3x FY21F PE, which is -0.8 SD below its 4-year historical mean. We also like CSE for its attractive dividend yield of 6.1%.

Oil & Gas ("O&G") segment is nearing or past the worst. We believe its O&G segment outlook is improving with oil prices stabilising at US\$40/bbl and economies gradually reopening.

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\$0.55 (previously S\$0.57). We revise our FY20F/21F earnings by -2% on the back of lower EBIT margins for its O&G business. Our lower TP of S\$0.55 is pegged to 10.1x (4-year average) FY21F earnings.

Where we differ:

We are more optimistic on CSE's earnings recovery from FY21F.

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 (\$m/US\$m)	230 / 170
Major Shareholders (%)	
Heliconia Capital Management Pte. Ltd	25.0
FMR LLC	10.0
Edgbaston Investment Partners	4.8
Free Float (%)	60.2
3m Avg. Daily Val (US\$m)	0.47

GIC Industry : Information Technology / Software & Services



Live more, Bank less

WHAT'S NEW

9M20 earnings in line with our expectations

Results Review

9M20 net profit was in line with our expectations, increased 26.4% y-o-y to S\$20.2m. CSE's net profit increase in 9M20 was proportionate with its expansion in revenue. Net profit margin was maintained at 5.4%.

- **While 9M20 net profit formed 82% of our FY20F estimates,** we are expecting a smaller contribution in 4Q20 as new orders from its Oil & Gas segment contract.

9M20 revenue increased 26.5% y-o-y to S\$373.4m mainly driven by its O&G segment. The increase in revenue was largely driven by its O&G segment, which had the full-year contributions from Volta and the commencement of its two large O&G contracts. Based on CSE's new orders and outstanding orders, we estimate that its 9M20 revenue from O&G increased 32% y-o-y to S\$255m.

- We believe revenue from its Mining & Minerals ("M&M") segment also contributed to the growth, increasing 48% y-o-y to S\$40m.

9M20 EBIT increased 29.3% y-o-y to S\$27.3m; EBIT margins for its O&G segment under pressure. CSE's 9M20 EBIT margins increased slightly, by 0.2ppts to 7.3%. Its O&G segment faced EBIT margin pressures in 3Q20 due to:

1. **Lower utilisation levels** from a decrease in O&G flow business orders and revenue, and
2. **A decline in efficiency** due to pandemic-related procedures implemented.

We believe EBIT margins in its two other segments (Infrastructure and Mining & Minerals) remained relatively stable.

Earnings, Overall Thoughts, and Recommendation

Trimmed FY21F earnings marginally by 2% due to EBIT margin pressure on its O&G segment. We are lowering our FY21F O&G EBIT margin assumption to 6.0% (previously 6.5%) to reflect the lower utilisation levels (or compensation from the potential reduction in workforce) as well as the increased inefficiencies.

Nearing or past the worst; not expecting any large O&G contract wins.

Oil prices have largely stabilized at US\$40/bbl as the oil market regained demand-supply balance. While the oil prices are lower than pre-COVID levels and may have some lingering impact on earnings in the near term, we believe the worst for its O&G is likely nearing or over. However, we are not expecting any large O&G contract wins at current oil price levels.

Expect CSE likely to maintain its final dividend of 1.50 Scts per share; FY20F has an attractive dividend yield of 6.1%.

Although CSE is currently facing a challenging outlook, we believe that it has the capacity to maintain its final dividend in 4Q20, representing an expected payout ratio of 57%. We are projecting CSE's cash flow from operations to amount to S\$48m in FY20F, which will be more than sufficient to service its maintenance capex of S\$12.5m, repay some of its long-term debt and pay dividends of S\$14m.

Maintain BUY with a lower TP of S\$0.55 (previously: S\$0.57) on lower FY21F earnings.

Despite cutting our earnings forecasts, we remain positive on CSE as 1) we like the stock's undemanding valuation of 8.3x FY21F PE (-0.8 SD its 4-year historical mean), and 2) we believe we are nearing or past the worst with oil prices stabilising at US\$40/bbl and economies gradually reopening. Our TP of S\$0.55 is pegged to 10.1x (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.

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%	-29.6%	11.5%	9.1%
EBIT Margins	7.6%	7.0%	7.1%	7.2%	7.5%

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (\$m)					
Oil & Gas	248	294	317	318	339
Infrastructure	110	115	96.0	125	132
Mining & Minerals	15.7	42.4	55.6	70.0	82.0
Total	373	452	468	512	553
EBIT (\$m)					
Oil & Gas	13.8	18.4	19.9	19.1	22.0
Infrastructure	14.6	12.9	10.6	13.7	14.8
Mining & Minerals	0.09	0.60	2.78	4.20	4.92
Total	28.5	31.9	33.3	37.0	41.7
EBIT Margins (%)					
Oil & Gas	5.6	6.3	6.3	6.0	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	7.1	7.2	7.5

Source: Company, DBS Bank

Income Statement (\$5m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	373	452	468	512	553
Cost of Goods Sold	(270)	(328)	(338)	(370)	(398)
Gross Profit	104	124	130	142	155
Other Opng (Exp)/Inc	(75.2)	(91.9)	(96.3)	(105)	(113)
Operating Profit	28.5	31.8	33.3	37.0	41.7
Other Non Opg (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)	(2.7)	(2.5)	(2.5)
Exceptional Gain/(Loss)	(1.5)	(1.9)	0.0	0.0	0.0
Pre-tax Profit	27.9	29.8	30.9	34.8	39.6
Tax	(6.7)	(6.1)	(6.8)	(7.7)	(8.7)
Minority Interest	0.66	0.40	0.41	0.46	0.53
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	21.9	24.1	24.5	27.6	31.4
Net Profit before Except.	23.4	26.0	24.5	27.6	31.4
EBITDA	37.7	47.1	48.2	53.8	60.5
Growth					
Revenue Gth (%)	3.1	21.0	3.6	9.4	7.9
EBITDA Gth (%)	24.5	24.9	2.3	11.6	12.4
Opg Profit Gth (%)	45.0	11.8	4.6	11.1	12.9
Net Profit Gth (Pre-ex) (%)	56.3	11.2	(5.5)	12.6	13.7
Margins & Ratio					
Gross Margins (%)	27.7	27.4	27.7	27.7	28.0
Opg Profit Margin (%)	7.6	7.0	7.1	7.2	7.5
Net Profit Margin (%)	5.9	5.3	5.2	5.4	5.7
ROAE (%)	12.7	13.8	13.5	14.3	15.0
ROA (%)	7.9	7.2	6.3	7.1	7.7
ROCE (%)	10.9	9.6	7.5	8.5	9.3
Div Payout Ratio (%)	64.7	58.1	56.9	50.5	44.5
Net Interest Cover (x)	51.1	17.3	12.3	14.9	16.9

Source: Company, DBS Bank

CSE Global

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	57.5	68.2	84.9
Inventory	16.5	21.7	19.7	21.5	23.1
Debtors	81.8	128	109	119	128
Other Current Assets	38.1	61.2	61.2	61.2	61.2
Total Assets	269	396	380	399	420
ST Debt	36.1	69.4	69.4	69.4	69.4
Creditor	44.5	71.5	59.8	65.4	70.3
Other Current Liab	15.3	32.0	32.0	32.0	32.0
LT Debt	0.0	33.7	18.7	18.7	18.7
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	380	399	420
Non-Cash Wkg. Capital	76.6	107	97.7	104	110
Net Cash/(Debt)	37.9	(52.5)	(30.7)	(20.0)	(3.3)
Debtors Turn (avg days)	87.0	84.7	92.3	81.1	81.6
Creditors Turn (avg days)	69.6	67.3	74.0	64.7	65.3
Inventory Turn (avg days)	21.7	22.1	23.3	21.3	21.5
Asset Turnover (x)	1.4	1.4	1.2	1.3	1.3
Current Ratio (x)	2.2	1.5	1.5	1.6	1.7
Quick Ratio (x)	1.6	1.0	1.0	1.1	1.2
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	14.2	14.2	14.2
Z-Score (X)	4.2	2.7	3.0	3.0	2.5

Source: Company, DBS Bank

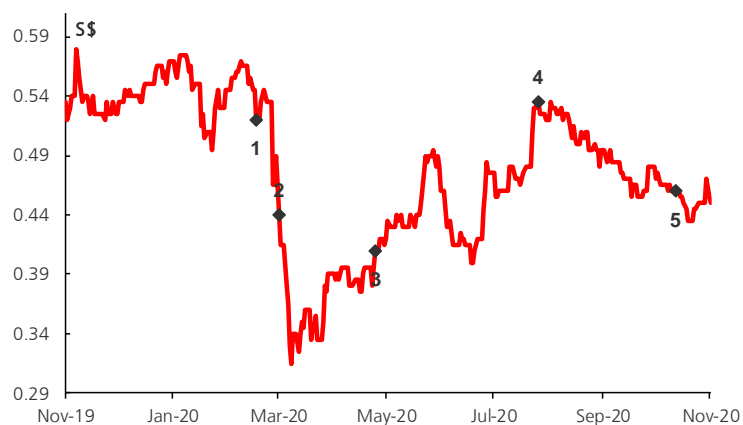
CSE Global

Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	27.9	29.8	30.9	34.8	39.6
Dep. & Amort.	7.85	13.6	14.6	16.5	18.4
Tax Paid	(8.5)	(4.7)	(6.8)	(7.7)	(8.7)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	19.7	(26.6)	9.60	(6.5)	(6.1)
Other Operating CF	0.58	(0.3)	0.0	0.0	0.0
Net Operating CF	47.5	11.8	48.3	37.2	43.2
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	(15.0)	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	(29.0)	(14.0)	(14.0)
Currency Adjustments	(0.1)	(0.9)	0.0	0.0	0.0
Chg in Cash	27.1	(23.4)	6.82	10.7	16.7
Opg CFPS (S cts)	5.46	7.57	7.62	8.60	9.71
Free CFPS (S cts)	8.13	(11.7)	7.05	4.86	6.04

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Feb 20	0.52	0.70	BUY
2:	12 Mar 20	0.44	0.65	BUY
3:	06 May 20	0.41	0.54	BUY
4:	06 Aug 20	0.54	0.61	BUY
5:	23 Oct 20	0.46	0.57	BUY

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

Source: DBS Bank

Analyst: Wei Le CHUNG

Lee Keng LING

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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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