

COMPANY UPDATE

CSE Global (CSE SP)

Strong Order Wins For 1Q22 But Delivery Remains Challenging

CSE reported a strong order intake of S\$232m (+119% yoy) in 1Q22 due to a major contract for the data-centre and wastewater markets in the Americas region, bringing its orderbook to S\$344m (+49% yoy). However, CSE continued to face supply chain constraints which delayed the delivery of new equipment or components. These challenges will continue to impact CSE's earnings for 1H22. Maintain HOLD and target price of S\$0.44.

1Q22 FINANCIALS

Year to 31 Dec (S\$m)	1Q22	1Q21	yoy % chg
Revenue	117.6	111.2	5.8
New orders received	232.3	106.1	118.8
Outstanding orders	344.0	231.0	49.0

Source: CSE, UOB Kay Hian

WHAT'S NEW

- Strong order intake.** CSE Global's (CSE) order intake surged by 118.8% yoy to S\$232.3m, attributed to a major contract secured to provide engineering solutions for the data-centre market and higher field services orders for the wastewater market in the Americas region, as well as stronger orders of radio communication equipment and solutions led by utility and renewables customers in Australia. In total, these boosted CSE's orderbook to S\$344m (+49% yoy). The order win is ahead of our expectation of S\$520m in order wins for 2022, but the order could be lumpy in nature as it is a large project.
- Marginal growth in revenue.** CSE's revenue was 5.8% higher yoy at S\$117.6m in 1Q22, attributable to growth in infrastructure projects in the Asia Pacific region, particularly from utility and government customers in Australia. The energy sector's revenue fell 16.0% yoy, mainly attributable to lower large project revenue recognised in the Americas region. Infrastructure revenue improved 56.6% yoy, mainly driven by higher revenue contributions across all key geographies of Australia, Singapore, the UK and the US due to increased investments in public and critical infrastructure. Mining & Minerals' revenue increased by 3.8% yoy, as projects started to see more progress due to the easing of COVID-19 restrictions, compared to 1Q21 which saw delays in project execution due to poor weather conditions and COVID-19 disruptions.
- Deliveries of orders remain challenging due to supply chain constraints.** CSE has continued to face supply chain constraints, which have affected some of its current projects. Delivery of equipment was delayed and longer lead time is needed for purchases of new equipment or components. These operational challenges will continue to weigh on the financial performance of the group in 1H22, but this is expected to improve in 2H22. These challenges could impact CSE's margins due to higher operational costs which include materials and wages.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	503	469	500	504	517
EBITDA	50	35	41	45	50
Operating profit	37	20	24	27	30
Net profit (rep./act.)	28	15	17	19	22
Net profit (adj.)	26	15	17	19	22
EPS (S\$ cent)	5.2	2.9	3.4	3.7	4.3
PE (x)	9.4	16.6	14.3	12.9	11.3
P/B (x)	1.3	1.3	1.3	1.2	1.2
EV/EBITDA (x)	5.7	8.2	6.9	6.4	5.7
Dividend yield (%)	5.7	5.7	5.7	5.7	5.7
Net margin (%)	5.6	3.2	3.5	3.8	4.3
Net debt/(cash) to equity (%)	20.3	25.5	19.4	11.8	3.6
Interest cover (x)	14.5	13.2	18.8	23.4	30.2
ROE (%)	15.2	7.8	9.0	9.8	10.9
Consensus net profit	-	-	26	29	-
UOBKH/Consensus (x)	-	-	0.66	0.67	-

Source: CSE Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.46
Target Price	S\$0.44
Upside	-5.5%

COMPANY DESCRIPTION

CSE Global Limited provides systems integration and information technology solutions, computer network systems, and industrial automation. The company also designs, manufactures, and installs management information systems. CSE Global develops, manufactures, and sells electronic and micro-processor monitoring equipment.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	CSE SP
Shares issued (m):	512.4
Market cap (S\$m):	248.5
Market cap (US\$m):	183.6
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

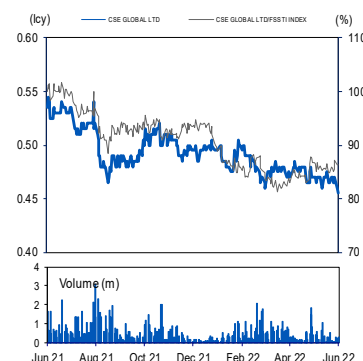
52-week high/low S\$0.580/S\$0.465

1mth	3mth	6mth	1yr	YTD
2.1	(1.0)	1.0	(4.0)	(2.0)

Major Shareholders

	%
Temasek Holdings	25.0
FMR LLC	10.0
FY22 NAV/Share (S\$)	0.38
FY22 Net Debt/Share (S\$)	0.07

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Cautious on supply chain challenges and inflationary pressure.** The current global economic outlook is impacted by supply chain disruptions and inflationary pressures, which will continue to create uncertainty. While there was a lack of large greenfield projects in the Energy sector, CSE continues to see stable financial performance in the Infrastructure and Mining & Minerals sectors, supported by a steady stream of projects arising from requirements in digitalization and enhancements in physical and cyber security. Despite the operational challenges brought about by the supply chain disruption, CSE will continue to execute the S\$344m orderbook as at 1Q22. It will also focus on improving its core business and drive its expansion into new geographical markets for Energy, Infrastructure and Mining & Minerals sectors with a view to securing additional order opportunities.
- Dividend yield is attractive at around 6.0%.** We expect the group to maintain its full-year dividend at 2.75 S cents/share for 2022, translating to an above-average dividend yield of 6.0% vs the FSSTI's of around 4.0%.

EARNINGS REVISION/RISK

- We maintain our earnings forecast.

VALUATION/RECOMMENDATION

- Maintain HOLD and PE-based target price of S\$0.44**, pegged to 13x 2022F PE (+1SD above mean). Our target price implies a dividend yield of 6.3%.

SHARE PRICE CATALYST

- Large greenfield O&G and infrastructure project wins.
- Recovery in oil prices.
- Accretive acquisitions.

CSE GLOBAL FORWARD PE BAND SINCE 2016

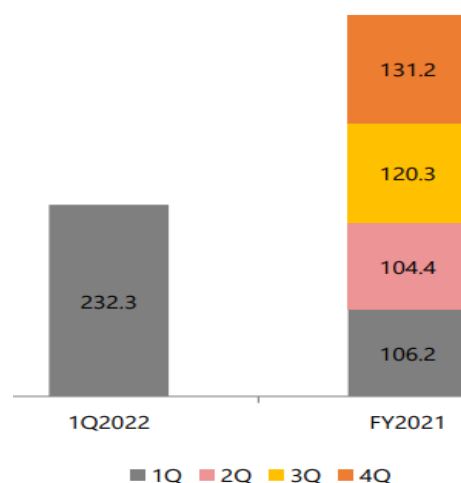


Source: Bloomberg, UOB Kay Hian

QUARTERLY ORDER INTAKE

S\$232.3m

S\$462.1m



Source: CSE

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	468.7	499.9	503.6	516.9
EBITDA	34.8	41.4	45.2	50.2
Deprec. & amort.	14.7	16.9	18.5	20.1
EBIT	20.1	24.5	26.7	30.1
Total other non-operating income	2.1	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(2.6)	(2.2)	(1.9)	(1.7)
Pre-tax profit	19.6	22.3	24.8	28.5
Tax	(4.6)	(4.9)	(5.5)	(6.3)
Minorities	(0.0)	0.0	0.0	0.0
Net profit	15.0	17.4	19.3	22.2
Net profit (adj.)	15.0	17.4	19.3	22.2

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	62.0	57.2	52.1	45.6
Other LT assets	85.2	80.4	75.5	70.6
Cash/ST investment	46.5	9.8	10.8	27.3
Other current assets	203.8	217.0	218.6	224.2
Total assets	397.5	364.3	357.0	367.8
ST debt	47.9	41.2	34.5	34.8
Other current liabilities	88.3	101.5	102.2	104.6
LT debt	47.5	6.4	0.0	0.0
Other LT liabilities	21.8	19.2	19.2	19.2
Shareholders' equity	192.0	195.2	200.4	208.4
Minority interest	(0.0)	0.7	0.7	0.7
Total liabilities & equity	397.5	364.3	357.0	367.8

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	29.4	40.1	42.7	44.8
Pre-tax profit	19.6	22.3	24.8	28.5
Tax	(4.9)	(4.9)	(5.5)	(6.3)
Deprec. & amort.	14.7	16.9	18.5	20.1
Associates	0.0	0.0	0.0	0.0
Working capital changes	(6.6)	(0.1)	(0.9)	(3.2)
Non-cash items	(0.2)	0.0	0.0	0.0
Other operating cashflows	6.8	5.8	5.8	5.8
Investing	(15.5)	(14.8)	(14.4)	(14.5)
Capex (growth)	(9.8)	(9.0)	(8.5)	(8.7)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.7	0.0	0.0	0.0
Others	(6.4)	(5.8)	(5.8)	(5.8)
Financing	(18.0)	(62.0)	(27.3)	(13.9)
Dividend payments	(14.1)	(14.2)	(14.2)	(14.2)
Proceeds from borrowings	0.0	(47.8)	(13.1)	0.3
Loan repayment	(2.6)	0.0	0.0	0.0
Others/interest paid	(1.4)	0.0	0.0	0.0
Net cash inflow (outflow)	(4.1)	(36.7)	1.1	16.5
Beginning cash & cash equivalent	49.4	46.5	9.8	10.8
Changes due to forex impact	0.2	0.0	0.0	0.0
Ending cash & cash equivalent	46.5	9.8	10.8	27.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	7.4	8.3	9.0	9.7
Pre-tax margin	4.2	4.5	4.9	5.5
Net margin	3.2	3.5	3.8	4.3
ROA	3.8	4.6	5.4	6.1
ROE	7.8	9.0	9.8	10.9
Growth				
Turnover	(6.8)	6.7	0.7	2.6
EBITDA	(30.5)	19.0	9.1	11.0
Pre-tax profit	(45.2)	13.6	11.2	14.8
Net profit	(46.4)	15.9	11.2	14.8
Net profit (adj.)	(43.1)	15.9	11.2	14.8
EPS	(43.3)	15.9	10.4	14.8
Leverage				
Debt to total capital	33.2	19.5	14.6	14.3
Debt to equity	49.7	24.4	17.2	16.7
Net debt/(cash) to equity	25.5	19.4	11.8	3.6
Interest cover (x)	13.2	18.8	23.4	30.2

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