

COMPANY UPDATE

CSE Global (CSE SP)

Better-than-expected Order Win In 2Q23; Raise Target Price By 43% To S\$0.60

CSE's contract win of S\$231m in 2Q23 (+22% yoy) brings its 1H23 total contract win to S\$391m, forming 60% of our full-year estimate and has exceeded our expectation. The strong order win is driven by the infrastructure segment, from stronger orders of radio communication equipment, automation projects and new acquisitions. We raised our 2024 earnings estimate by 21%, after raising our revenue and order win forecast. Maintain BUY with a 43% higher target price of S\$0.60 (15x 2024 PE).

WHAT'S NEW

ORDER INTAKE BY SEGMENTS

Year to 31 Dec (S\$m)	2Q23	2Q22	yoy % chg	1H23	1H22	yoy % chg
Energy	99.1	132.8	-25.4	185.3	238.3	-22.2
Infrastructure	111.0	43.6	154.7	171.5	153.7	11.6
Mining & minerals	21.3	13.1	62.8	34.2	29.8	14.8
Total	231.4	189.5	22.1	391.0	421.7	-7.3
Outstanding orders	521.8	388.9	34.1	521.8	388.9	34.1

Source: CSE, UOB Kay Hian

- Secured new orders of S\$231m in 2Q23, exceeding our expectation.** CSE Global (CSE) announced that it had secured S\$231m of new orders in 2Q23. The 22% growth in orders was mainly attributable to higher flow orders secured in the infrastructure and mining & minerals sectors, particularly in the US, Australia/New Zealand and Singapore. CSE's contract win in 1H23 accounts for around 60% of our full-year estimate and has exceeded our expectation. The strong order win is mainly driven by the infrastructure segment, which reported 155% yoy growth, from stronger orders of radio communication equipment, automation projects and new acquisitions.
- Strong order wins in the infrastructure and mining & minerals segments.** New orders for the infrastructure sector grew 155% yoy, mainly attributable to: a) stronger orders of radio communication equipment and solutions in Asia Pacific, b) higher award of automation projects in the Americas region, and c) higher order intake contributed by new acquisitions. On the other hand, the mining & minerals sector clinched S\$21m (+63% yoy) worth of new orders in 2Q23, mainly a result of new orders for radio communication network services and electrical equipment from mining customers in Australia.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	469	558	714	785	863
EBITDA	35	22	48	58	54
Operating profit	20	8	30	38	41
Net profit (rep./act.)	15	5	19	25	27
Net profit (adj.)	15	5	19	25	27
EPS (S\$ cent)	2.9	0.9	3.0	4.0	5.2
PE (x)	16.2	53.1	15.8	11.9	9.2
P/B (x)	1.3	1.4	1.4	1.3	1.3
EV/EBITDA (x)	11.3	17.8	8.1	6.8	7.3
Dividend yield (%)	5.8	5.8	5.8	5.8	5.8
Net margin (%)	3.2	0.9	2.6	3.1	3.1
Net debt/(cash) to equity (%)	25.5	34.0	45.9	44.5	43.5
Interest cover (x)	13.2	4.2	8.1	8.7	8.4
ROE (%)	7.8	2.4	8.7	11.2	11.7
Consensus net profit	-	-	19	23	26
UOBKH/Consensus (x)	-	-	1.00	1.06	1.01

Source: CSE, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.48
Target Price	S\$0.60
Upside	+26.3%
(Previous TP)	S\$0.42)

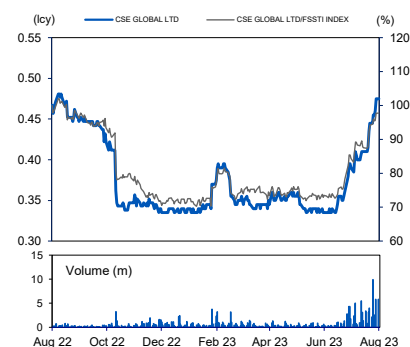
COMPANY DESCRIPTION

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.

STOCK DATA

GICS sector	Information Technology			
Bloomberg ticker:	CSE SP			
Shares issued (m):	614.9			
Market cap (S\$m):	292.1			
Market cap (US\$m):	219.3			
3-mth avg daily t'over (US\$m):	0.4			
Price Performance (%)				
52-week high/low	S\$0.481/S\$0.335			
1mth	3mth	6mth	1yr	YTD
20.3	33.8	28.4	2.9	39.7
Major Shareholders				
Temasek Hldgs	25.0			
FMR LLC	10.0			
-	-			
FY23 NAV/Share (S\$)	0.35			
FY23 Net Debt/Share (S\$)	0.16			

PRICE CHART



Source: Bloomberg

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- **Energy segment recorded growth excluding one-off major contracts.** About 43% or S\$99m of new orders were secured by CSE's energy segment in 2Q23, compared to S\$133m in 2Q22 which included a one-off major contract relating to the maintenance of integrated control systems for an onshore facility and a large greenfield order in the renewables space totalling S\$37m. Excluding the effect of such one-off major contracts secured in 2Q22, the energy segment's new orders grew by 2.9% yoy.

STOCK IMPACT

- **Expect strong earnings recovery in 1H23.** We expect CSE to achieve around 100% yoy growth in 1H23 earnings as it recovers from low base earnings of S\$4.5m in 1H22. As the supply chain disruptions ease, CSE will be able to deliver its contracts faster and enjoy margins recovery. Also, CSE's strong orderbook of S\$522m as of 1H23 (+34% yoy) should ensure robust earnings in 2H23 and 2024.
- The Infrastructure segment remains a key focus area in CSE's ongoing diversification strategy and these contract wins reaffirm the strength of CSE's approach. CSE anticipates more order opportunities in the infrastructure sector in the next few quarters, which will hopefully translate to higher contribution from this sector going forward.
- **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 digitalisation, communications and enhancements in physical and cyber security globally, and from data centres and water utilities in the Americas and Asia Pacific regions. CSE will expand its engineering capabilities and technology solutions to pursue new market opportunities and diversify into new markets brought about by the emerging trends towards urbanisation, electrification and decarbonisation.
- **Dividend yield is attractive.** We expect CSE to maintain its full-year dividend at 2.75 S cents/share for 2023, translating to an above-average dividend yield of about 6% vs the FSSTI's of around 4.0%.

EARNINGS REVISION/RISK

- We raised our 2024/2025 earnings estimates by 21%/22% after raising our revenue estimates by 14%/19%. The higher revenue is attributable to increased contract win estimates, which we have raised by 29%/27%/23% for 2023/24/25 to S\$889m/S\$918m/S\$937m after the better-than-expected order wins.
- Also, we have increased our gross margin estimates by around 0.8ppt to 28.5% for 2024 and 2025 as we take into account: a) the gross margin recovery from better economies of scale on a higher revenue base, and b) better cost management as CSE recovers from the supply chain disruptions.

VALUATION/RECOMMENDATION

- **Maintain BUY and raise our target price by 43% to S\$0.60.** Our target price is pegged to 15x 2024F PE (based on +1SD above mean). We have rolled over our valuation base year to 2024. Our target price implies a 2023 dividend yield of 4.6% as we expect CSE to maintain a full-year dividend of 2.75 S cents/share for 2023.

SHARE PRICE CATALYST

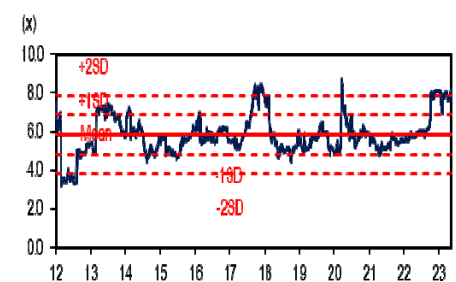
- Large infrastructure project wins.
- Accretive acquisitions.

FORWARD PE BAND SINCE 2016



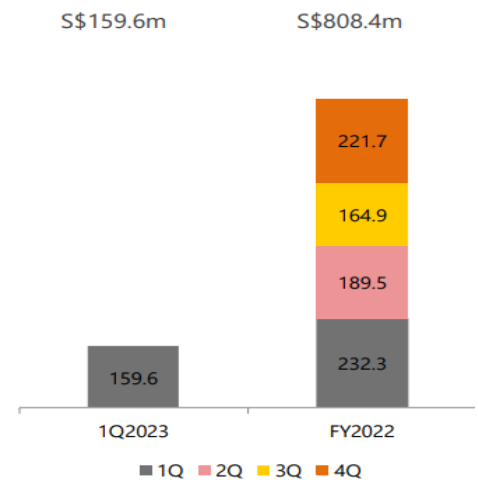
Source: Bloomberg, UOB Kay Hian

10-YEAR DIVIDEND YIELD BAND



Source: Bloomberg, UOB Kay Hian

QUARTERLY ORDER INTAKE



Source: CSE

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	557.7	714.0	784.6	863.4
EBITDA	22.0	48.2	57.8	53.8
Deprec. & amort.	13.9	18.3	19.6	13.3
EBIT	8.1	29.8	38.2	40.6
Total other non-operating income	5.4	0.0	0.0	0.0
Associate contributions	(0.0)	0.0	0.0	0.0
Net interest income/(expense)	(5.2)	(5.9)	(6.7)	(6.4)
Pre-tax profit	8.3	23.9	31.5	34.1
Tax	(3.5)	(5.3)	(6.9)	(7.5)
Minorities	(0.0)	0.0	0.0	0.0
Net profit	4.8	18.7	24.6	26.6
Net profit (adj.)	4.8	18.7	24.6	26.6

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	0.0	1.2	30.6	25.8
Pre-tax profit	8.3	23.9	31.5	34.1
Tax	(4.1)	(5.3)	(6.9)	(7.5)
Deprec. & amort.	13.9	18.3	19.6	13.3
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	(21.2)	(41.8)	(19.6)	(20.0)
Non-cash items	(4.4)	0.0	0.0	0.0
Other operating cashflows	7.6	5.9	5.9	5.9
Investing	(45.7)	(12.5)	(12.9)	(9.8)
Capex (growth)	(15.5)	(6.6)	(6.9)	(3.9)
Investments	1.2	0.0	0.0	0.0
Proceeds from sale of assets	9.0	0.0	0.0	0.0
Others	(40.5)	(5.9)	(5.9)	(5.9)
Financing	25.0	(14.7)	(17.0)	(17.0)
Dividend payments	(14.1)	(14.7)	(17.0)	(17.0)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	5.8	0.0	0.0	0.0
Others/interest paid	33.4	0.0	0.0	0.0
Net cash inflow (outflow)	(20.7)	(26.0)	0.7	(1.0)
Beginning cash & cash equivalent	45.5	34.2	7.5	7.5
Changes due to forex impact	(0.7)	(0.7)	(0.7)	(0.7)
Ending cash & cash equivalent	34.2	7.5	7.5	5.8

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	63.5	51.5	43.7	39.2
Other LT assets	102.8	97.9	93.1	88.2
Cash/ST investment	34.2	7.5	7.5	5.8
Other current assets	291.7	375.9	410.9	451.1
Total assets	492.3	532.9	555.2	584.2
ST debt	68.7	68.7	68.7	68.7
Other current liabilities	153.8	190.3	205.8	225.9
LT debt	37.7	37.7	37.7	37.7
Other LT liabilities	19.7	19.7	19.7	19.7
Shareholders' equity	212.3	215.6	222.4	231.4
Minority interest	(0.0)	0.8	0.8	0.8
Total liabilities & equity	492.3	532.8	555.2	584.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	4.0	6.7	7.4	6.2
Pre-tax margin	1.5	3.3	4.0	4.0
Net margin	0.9	2.6	3.1	3.1
ROA	1.1	3.6	4.5	4.7
ROE	2.4	8.7	11.2	11.7
Growth				
Turnover	19.0	28.0	9.9	10.0
EBITDA	(36.5)	118.7	20.0	(6.9)
Pre-tax profit	(57.7)	188.2	31.9	8.2
Net profit	(68.2)	291.1	31.9	8.2
Net profit (adj.)	(68.2)	291.1	31.9	8.2
EPS	(69.5)	237.3	31.9	29.7
Leverage				
Debt to total capital	33.4	33.0	32.3	31.4
Debt to equity	50.1	49.4	47.8	46.0
Net debt/(cash) to equity	34.0	45.9	44.5	43.5
Interest cover (x)	4.2	8.1	8.7	8.4

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