

COMPANY RESULTS

CSE Global (CSE SP)

1H23: Results Above Expectations; Record Orderbook To Drive Better 2H23

CSE's 1H23 earnings of S\$11m (+143% yoy) was above expectations, forming 58% of our full-year estimate, as net margin grew strongly at 1.5ppt yoy to 3.2% in the absence of project delay, which inflated the admin cost last year. 1H23 orderbook reached all-time high of S\$522m (+34% yoy) and should drive a better 2H23 earnings on a hoh basis. We raised our 2023 and 2024 earnings by 9% and 2% respectively. Maintain BUY with a 2% higher target price of S\$0.61.

1H23 RESULTS

Year to 31 Dec (S\$m)	1H23	1H22	yoy % ch
Revenue	349.3	262.2	33.2
Gross profit	95.8	72.8	31.6
Gross margin	27.4%	27.8	-0.4ppt
Net profit	11.0	4.5	142.6
Net margin	3.2%	1.7%	1.5ppt
New orders received	391.0	421.7	-7.3
Outstanding orders	521.8	389.0	34.2

Source: CSE, UOB Kay Hian

RESULTS

- Earnings above expectations due to strong improvement in net margin.** CSE Global's (CSE) 1H23 earnings of S\$11m (+143% yoy) were above expectations, forming 58% of our full-year estimate. The beat was mainly due to strong improvement in net margin which grew 1.5ppt yoy to 3.2%. To recap, CSE was hit badly last year by delay in project delivery due to supply chain issues, which have eased significantly in 1H23.
- 1H23 revenue increased 33% yoy to a record S\$349m**, mainly attributable to growth in flow revenues across all geographical regions as well as contribution from new acquisitions of S\$38m. The Americas region registered a 37% yoy growth in revenue for both the energy and infrastructure sectors of S\$204m, mainly attributed to higher project and time and material revenue achieved; EBIT for the region rose to S\$3.4m, reversing from a loss. On the other hand, the Asia Pacific region reported a 29% yoy growth in 1H23 revenue to S\$135m, due to higher infrastructure project revenue in Australia of S\$10m and revenue contributions from new business acquisitions of S\$27m; EBIT rose by 32% yoy to S\$15m.
- Strong orderbook should drive better earnings in 2H23.** CSE's 1H23 orderbook reached all-time high of S\$522m (+34% yoy) due to strong order intake in the infrastructure and mining & minerals segments, which has grown 12% and 15% yoy respectively. This robust orderbook coupled with strong order flow should drive a better 2H23 earnings on a hoh basis. CSE highlighted that its diversification strategy to invest in and acquire communications businesses has contributed to the better financial performance. Looking ahead, it will continue to enhance its capabilities such as automation, electrification and critical communications, to seize on emerging market prospects.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	469	558	714	785	863
EBITDA	35	22	51	59	55
Operating profit	20	8	33	39	41
Net profit (rep./act.)	15	5	21	25	27
Net profit (adj.)	15	5	21	25	27
EPS (S\$ cent)	2.9	0.9	3.4	4.1	5.3
PE (x)	15.9	52.0	13.8	11.4	8.8
P/B (x)	1.2	1.3	1.3	1.3	1.2
EV/EBITDA (x)	11.1	17.4	7.5	6.5	7.0
Dividend yield (%)	5.9	5.9	5.9	5.9	5.9
Net margin (%)	3.2	0.9	2.9	3.2	3.2
Net debt/(cash) to equity (%)	25.5	34.0	44.4	42.7	41.4
Interest cover (x)	13.2	4.2	8.6	8.8	8.5
ROE (%)	7.8	2.4	9.7	11.4	11.9
Consensus net profit	-	-	19	25	28
UOBKH/Consensus (x)	-	-	1.08	1.03	0.98

Source: CSE Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.47
Target Price	S\$0.61
Upside	+31.2%
(Previous TP)	S\$0.60)

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):	285.9
Market cap (US\$m):	212.5
3-mth avg daily t'over (US\$m):	0.5

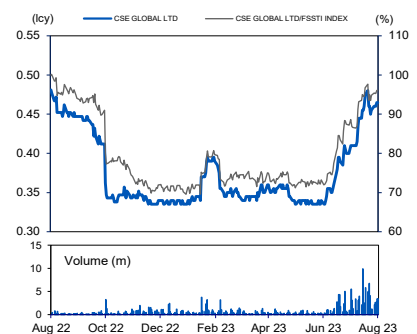
Price Performance (%)

52-week high/low				S\$0.481/S\$0.335	
1mth	3mth	6mth	1yr	YTD	
16.3	36.8	19.2	(2.4)	36.8	

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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STOCK IMPACT

- **Expect strong earnings recovery in 2023.** We expect CSE to achieve 338% yoy growth in 2023 earnings as it recovers from low base earnings of S\$5m in 2022. 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 a 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 region. 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 2023/2024/2025 earnings estimates** by 9%/2%/3% after raising our net margin estimates by 0.3%/0.1%/0.1% to 2.9%/3.2%/3.2% as we take into account better economies of scale on a higher revenue base and better cost management as CSE recovers from the supply chain disruptions.

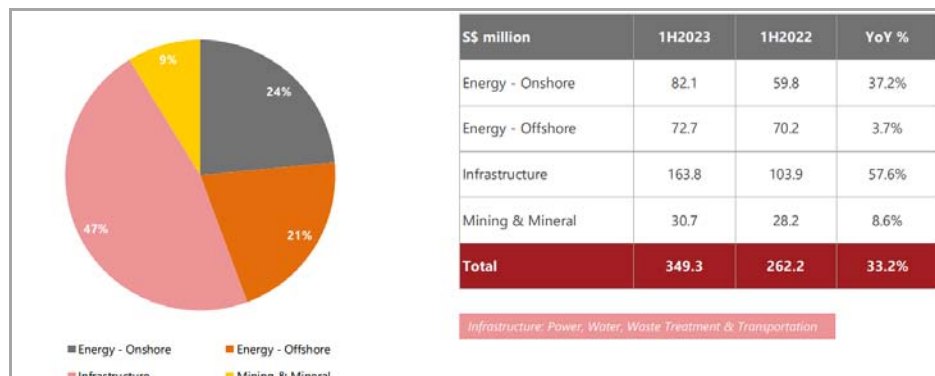
VALUATION/RECOMMENDATION

- **Maintain BUY and raise our target price by 2% to S\$0.61.** Our target price is pegged to 15x 2024 PE (based on +1SD above mean). Our target price implies a 2023 dividend yield of 4.5% 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.

REVENUE BREAKDOWN BY INDUSTRY



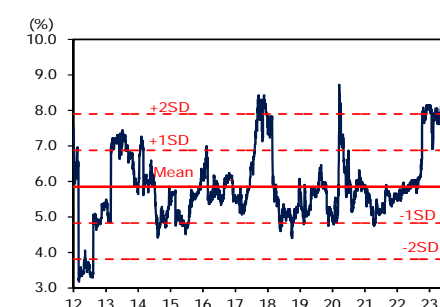
Source: CSE

FORWARD PE BAND SINCE 2016



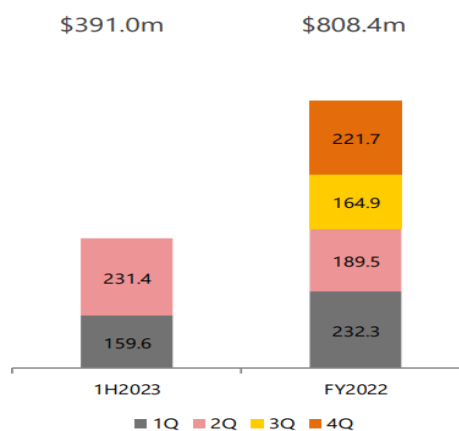
Source: Bloomberg, UOB Kay Hian

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	51.0	58.6	54.7
Deprec. & amort.	13.9	18.3	19.6	13.3
EBIT	8.1	32.7	39.0	41.4
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	26.8	32.3	35.0
Tax	(3.5)	(5.9)	(7.1)	(7.7)
Minorities	(0.0)	0.0	0.0	0.0
Net profit	4.8	20.9	25.2	27.3
Net profit (adj.)	4.8	20.9	25.2	27.3

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	9.7	10.3	9.3
Other current assets	291.7	375.9	410.9	451.1
Total assets	492.3	535.1	558.0	587.8
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	217.8	225.3	234.9
Minority interest	(0.0)	0.8	0.8	0.8
Total liabilities & equity	492.3	535.1	558.0	587.7

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	0.0	3.4	31.2	26.5
Pre-tax profit	8.3	26.8	32.3	35.0
Tax	(4.1)	(5.9)	(7.1)	(7.7)
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)	(23.8)	1.3	(0.3)
Beginning cash & cash equivalent	45.5	34.2	9.7	10.3
Changes due to forex impact	(0.7)	(0.7)	(0.7)	(0.7)
Ending cash & cash equivalent	34.2	9.7	10.3	9.3

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	4.0	7.1	7.5	6.3
Pre-tax margin	1.5	3.7	4.1	4.1
Net margin	0.9	2.9	3.2	3.2
ROA	1.1	4.1	4.6	4.8
ROE	2.4	9.7	11.4	11.9
Growth				
Turnover	19.0	28.0	9.9	10.0
EBITDA	(36.5)	131.6	14.8	(6.7)
Pre-tax profit	(57.7)	222.6	20.8	8.3
Net profit	(68.2)	337.8	20.8	8.3
Net profit (adj.)	(68.2)	337.8	20.8	8.3
EPS	(69.5)	277.6	20.8	29.8
Leverage				
Debt to total capital	33.4	32.7	32.0	31.1
Debt to equity	50.1	48.9	47.2	45.3
Net debt/(cash) to equity	34.0	44.4	42.7	41.4
Interest cover (x)	4.2	8.6	8.8	8.5

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