

COMPANY UPDATE

CSE Global (CSE SP)

Temporary Setback From Settlement Loss; Maintain Positive View On CSE For Its High Growth Trend

CSE announced arbitration proceedings between its US subsidiary, Hankin, and its customer, involving losses from construction project delays in the US. Both parties agreed to a settlement of US\$8m on 8 Sep 24, to be paid by Hankin. We view this as a one-off impact for 2024 and continue to like CSE for its robust order pipeline. Our recent site visit to CSE's US facility reinforced our view as it is riding the high growth electrification trend. Maintain BUY with a 2% lower target price of S\$0.59.

WHAT'S NEW

- Arbitration proceedings between US subsidiary and customer.** CSE Global (CSE) announced arbitration proceedings between its wholly-owned US subsidiary – Hankin Environmental Systems, Inc. (Hankin) – and its customer, which began on 3 Sep 24. Hankin has extensive experience in the design, supply and installation of high temperature thermal process systems for both industrial and municipal systems. It was engaged by the customer to perform certain engineering, materials procurement and installation services on a construction project in the US, where the customer was the general contractor.
- Settlement reached on 8 Sep 24.** The customer has alleged that it incurred losses from Hankin's delays in execution of the contracted work, while Hankin alleged that these were mainly attributable to COVID-19 supply chain disruptions and the customers' instructions to vary the approved existing design plan. After mediation, both parties agreed to a full and final settlement of US\$8m paid by Hankin. This sum will be recognised during 2024.
- One-off financial impact for 2024.** Due to the nature of CSE's project-based business, CSE bears execution risk of project cost overruns or delays that can impact its margins and profitability. We have adjusted our 2024 estimate to include about S\$10.5m in one-off losses, which made up 35% of our full-year estimate. We view this as a one-off impact and believe that management should take initiatives to improve on their project execution.
- Maintain positive view on robust order pipeline; recent site visit reinforced CSE's positive outlook.** Looking beyond the one-off arbitration cost, we remain positive on CSE's prospects, given its strong order pipeline, with its 1H24 orderbook having reached S\$692m (+33% yoy). In addition, our recent site visit to CSE's electrification business in Houston, US, reinforced our view that the business is going through a rapid growth where it is enjoying robust demand from the data centres, LNG terminals and infrastructure sectors. CSE is currently serving a major cloud provider in the US for power management systems and solutions, and we see huge growth potential to tap on more growth from the existing customer and potentially more new customers. To cope with the strong demand, CSE is looking to expand its facilities' floor area of 375,000sf across five locations at present to 600,000sf in the next 1-2 years.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	558	725	860	823	889
EBITDA	22	54	66	65	69
Operating profit	8	38	45	44	49
Net profit (rep./act.)	5	23	22	29	33
Net profit (adj.)	5	23	22	29	33
EPS (S\$ cent)	0.9	3.7	3.2	4.3	4.9
PE (x)	46.4	11.3	12.8	9.6	8.4
P/B (x)	1.2	1.2	1.1	1.1	1.0
EV/EBITDA (x)	15.6	6.3	5.2	5.3	4.9
Dividend yield (%)	6.6	6.6	6.6	6.6	6.6
Net margin (%)	0.9	3.1	2.5	3.6	3.7
Net debt/(cash) to equity (%)	34.0	35.2	22.3	8.8	1.9
Interest cover (x)	4.2	5.4	9.9	10.1	11.3
ROE (%)	2.4	10.5	9.5	11.6	12.5
Consensus net profit	-	-	30	36	42
UOBKH/Consensus (x)	-	-	0.73	0.82	0.79

Source: CSE, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.415
Target Price	S\$0.59
Upside	+42.2%
(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):	692.9
Market cap (S\$m):	287.6
Market cap (US\$m):	220.4
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

52-week high/low S\$0.485/S\$0.390

1mth	3mth	6mth	1yr	YTD
(12.6)	3.7	(2.4)	(12.6)	(3.5)

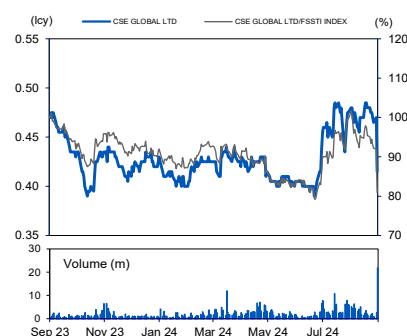
Major Shareholders

	%
Temasek Hldgs	23.0
FMR LLC	10.0

FY24 NAV/Share (S\$) 0.36

FY24 Net Debt/Share (S\$) 0.08

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Strong performance backed by robust orderbook.** CSE continues to enjoy strong order wins, with order intake of S\$391m in 1H24 signalling a healthy pipeline for the coming quarters. Orderbook reached S\$692m (+33% yoy), of which the infrastructure segment makes up the majority at 72%. CSE continues to embark on its growth strategy through capitalising on emerging trends like electrification and decarbonisation, while pursuing acquisitions in the critical communications space in the Americas region. Moving forward, CSE will also continue to focus on data centre and automation projects to seize emerging market prospects.
- **Dividend yield is attractive.** We expect CSE to maintain its full-year dividend at 2.75 S cents/share for 2024, translating to an above-average dividend yield of about 6.6% vs the FSSTI's of around 4.0%.

EARNINGS REVISION/RISK

- **We lower our 2024/25/26 earnings estimates by 27%/12%/8% respectively,** after recognising the US\$8m (around S\$10.5m) settlement sum in 2024 estimates. We have also calibrated 2025/26 earnings estimates after adopting a more conservative approach to order execution and factoring in the weaker US dollar. To recap, CSE derived 40% of its EBIT from the US as of 1H24.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 2% lower target price of S\$0.59 (S\$0.60 previously).** Our target price is pegged to 13x 2025F PE (based on +1SD above mean). We have rolled over our valuation base year to 2025. This implies a decent dividend yield of 6.6% as we expect CSE to maintain a full-year dividend of 2.75 S cents/share for 2024.

SHARE PRICE CATALYST

- Large infrastructure project wins.
- Accretive acquisitions.

HEAD OFFICE OF VOLTA, CSE'S US SUBSIDIARY



Source: CSE, UOB Kay Hian

INSTALLATION OF POWER SYSTEM OF DATA CENTRE CLIENT



Source: CSE, UOB Kay Hian

VOLTA'S WAREHOUSE FOR ELECTRICAL SYSTEMS INVENTORIES



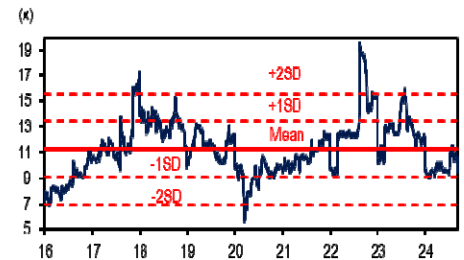
Source: CSE, UOB Kay Hian

POWER BUILDING FOR LNG TERMINAL



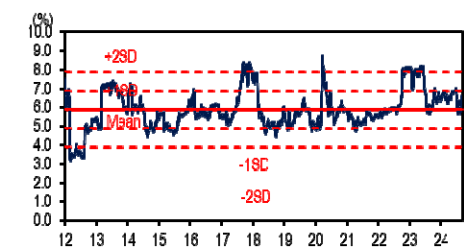
Source: CSE, UOB Kay Hian

FORWARD PE BAND SINCE 2016



Source: Bloomberg, UOB Kay Hian

10-YEAR DIVIDEND YIELD BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	725.1	860.1	823.5	889.4
EBITDA	54.4	65.9	64.7	69.4
Deprec. & amort.	16.9	20.7	20.7	20.7
EBIT	37.6	45.2	43.9	48.7
Total other non-operating income	1.3	(10.5)	0.0	0.0
Associate contributions	(0.0)	0.0	0.0	0.0
Net interest income/(expense)	(10.1)	(6.7)	(6.4)	(6.1)
Pre-tax profit	28.8	28.1	37.5	42.5
Tax	(6.3)	(6.2)	(8.3)	(9.4)
Minorities	0.1	0.0	0.0	0.0
Net profit	22.5	21.9	29.3	33.2
Net profit (adj.)	22.5	21.9	29.3	33.2

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	70.3	62.5	53.8	45.4
Other LT assets	128.3	123.5	118.6	113.7
Cash/ST investment	39.4	60.7	92.6	110.2
Other current assets	361.6	426.1	408.3	440.3
Total assets	599.6	672.7	673.3	709.5
ST debt	95.9	95.9	95.9	95.9
Other current liabilities	239.8	282.1	270.8	291.2
LT debt	19.5	19.5	19.5	19.5
Other LT liabilities	28.4	28.4	28.4	28.4
Shareholders' equity	216.1	246.1	258.0	273.8
Minority interest	(0.1)	0.7	0.7	0.7
Total liabilities & equity	599.6	672.7	673.3	709.6

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	55.9	27.6	63.5	49.5
Pre-tax profit	28.8	28.1	37.5	42.5
Tax	(6.6)	(6.2)	(8.3)	(9.4)
Deprec. & amort.	16.9	20.7	20.7	20.7
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	6.5	(22.1)	6.4	(11.5)
Non-cash items	(0.1)	0.0	0.0	0.0
Other operating cashflows	10.4	7.1	7.1	7.1
Investing	(24.4)	(14.4)	(14.2)	(14.5)
Capex (growth)	(17.9)	(7.3)	(7.1)	(7.4)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	1.3	0.0	0.0	0.0
Others	(7.8)	(7.1)	(7.1)	(7.1)
Financing	(16.8)	8.5	(16.9)	(16.9)
Dividend payments	(16.9)	(14.7)	(16.9)	(16.9)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.1	0.0	0.0	0.0
Others/interest paid	0.0	23.2	0.0	0.0
Net cash inflow (outflow)	14.7	21.7	32.4	18.0
Beginning cash & cash equivalent	24.1	39.4	60.7	92.6
Changes due to forex impact	(0.4)	(0.4)	(0.4)	(0.4)
Ending cash & cash equivalent	39.4	60.7	92.6	110.2

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	7.5	7.7	7.9	7.8
Pre-tax margin	4.0	3.3	4.6	4.8
Net margin	3.1	2.5	3.6	3.7
ROA	4.1	3.4	4.3	4.8
ROE	10.5	9.5	11.6	12.5
Growth				
Turnover	30.0	18.6	(4.3)	8.0
EBITDA	147.0	21.1	(1.9)	7.3
Pre-tax profit	246.5	(2.4)	33.8	13.3
Net profit	372.0	(2.8)	33.8	13.3
Net profit (adj.)	372.0	(2.8)	33.8	13.3
EPS	309.6	(11.4)	33.8	13.3
Leverage				
Debt to total capital	34.8	31.9	30.9	29.6
Debt to equity	53.4	46.9	44.7	42.2
Net debt/(cash) to equity	35.2	22.3	8.8	1.9
Interest cover (x)	5.4	9.9	10.1	11.3

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