

COMPANY UPDATE

CSE Global (CSE SP)

Outlook Remains Positive, Backed By Healthy Orderbook And Pipeline Of New Projects

CSE maintains its positive outlook. Backed by an orderbook of more than S\$700m and healthy order wins which grew 17% yoy in 1Q24, earnings could grow at a healthy rate of 11% for 2024. CSE is looking at a robust project pipeline in electrification and communication solutions in the infrastructure and energy industries. The electrification business is CSE's largest contributor, at 46% of its 2024 revenue. Also, CSE is exploring potential acquisition targets. Maintain BUY. Target price: S\$0.56.

WHAT'S NEW

- CSE maintains positive outlook and commitment to growth.** CSE Global (CSE) is maintaining its positive outlook in achieving a stronger financial performance in 2024, on the back of its strong orderbook of S\$719m in 1Q24 that is 50% higher yoy. We are expecting earnings growth of 11% yoy for 2024. CSE is committed to expanding its business as it sees opportunities arising on the back of megatrends such as urbanisation, electrification and decarbonisation. CSE sees promising prospects in the electrification trend as it is one of the most important strategies for reducing carbon emissions via substituting fossil-fuel sources of power with electricity generated from renewable energy sources. As a result of the emerging trend, there is increasing demand for key products including power systems protection and control solutions, critical communications, wind and solar systems, battery energy storage systems and electric-vehicle charging infrastructure.
- Building on diversification initiatives, with a focus on electrification and communications.** CSE is planning to build its electrification business in the US and New Zealand by securing more water and power distribution projects to support rising demand for power. In addition, it is actively pursuing opportunities in renewables, energy storage, data centres and related infrastructure. The electrification business is CSE's largest contributor, accounting for 46% of its total revenue in 2023. On the other hand, CSE is strengthening its communications business in ANZ/UK through integration of acquired businesses and focusing on critical communications and security solutions. Communication business is CSE's second-largest revenue contributor, forming 30% of revenue in 2023.
- Acquisition remains a key growth strategy.** CSE's acquisition strategy will focus on the electrification and critical communications businesses in the US, Europe, Australia and New Zealand. Management has shared that it is currently in talks with potential targets in the critical communications sector in Australia and the Americas region. This approach will help CSE scale growth. To recap, CSE has completed 30-40 acquisitions to date with a high rate of integration. CSE's S\$24m gross proceeds from the recent share placement will be used to finance value-accretive acquisitions.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	558	725	781	837	895
EBITDA	22	54	59	63	66
Operating profit	8	38	39	42	45
Net profit (rep./act.)	5	23	25	28	30
Net profit (adj.)	5	23	25	28	30
EPS (S\$ cent)	0.9	3.7	3.7	4.1	4.5
PE (x)	45.3	11.1	10.9	9.9	9.0
P/B (x)	1.2	1.2	1.1	1.1	1.0
EV/EBITDA (x)	14.5	5.9	5.4	5.1	4.9
Dividend yield (%)	6.8	6.8	6.8	6.8	6.8
Net margin (%)	0.9	3.1	3.2	3.3	3.4
Net debt/(cash) to equity (%)	34.0	35.2	15.0	9.0	2.7
Interest cover (x)	4.2	5.4	8.9	9.8	10.7
ROE (%)	2.4	10.5	10.8	10.9	11.4
Consensus net profit	-	-	27	33	38
UOBKH/Consensus (x)	-	-	0.92	0.84	0.79

Source: CSE, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.405
Target Price	S\$0.560
Upside	+38.3%

COMPANY DESCRIPTION

CSE Global 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):	692.9
Market cap (S\$m):	280.6
Market cap (US\$m):	207.9
3-mth avg daily t'over (US\$m):	0.7

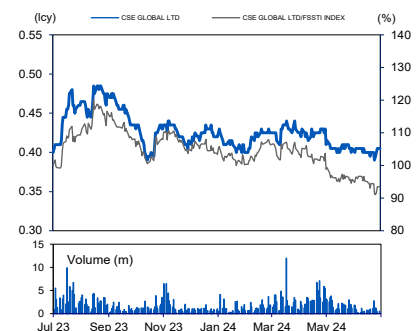
Price Performance (%)

52-week high/low	S\$0.485/S\$0.390				
1mth	3mth	6mth	1yr	YTD	
0.0	(5.8)	(3.6)	(1.2)	(5.8)	

Major Shareholders

	%
Temasek Hldgs	23.0
FMR LLC	10.0
FY24 NAV/Share (S\$)	0.37
FY24 Net Debt/Share (S\$)	0.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

• **CSE continues to see stable financial performance in the infrastructure and mining & minerals sectors.** This is 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. In 1Q24, CSE successfully generated >60% of its business from infrastructure and mining/minerals customers, which brought in S\$91m or 49% of 1Q24's order intake. This allows CSE to diversify into new markets and ride on the trends of urbanisation, electrification and decarbonisation.

• **Dividend yield remains 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% vs the FSSTI's of around 4.0%.

EARNINGS REVISION/RISK

• We maintain our earnings forecast.

VALUATION/RECOMMENDATION

• **Maintain BUY with a target price of S\$0.56.** Our target price is pegged to 15x 2024F PE (based on +1SD above mean) and implies a 2024 dividend yield of 6.8% as we expect CSE to maintain a full-year dividend of 2.75 S cents/share for 2024.

SHARE PRICE CATALYST

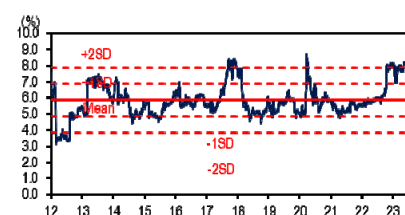
- Large infrastructure project wins.
- Accretive acquisitions.

FORWARD PE BAND SINCE 2016



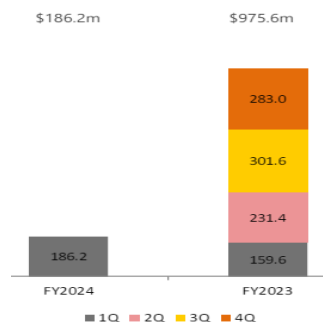
Source: Bloomberg, UOB Kay Hian

10-YEAR DIVIDEND YIELD BAND



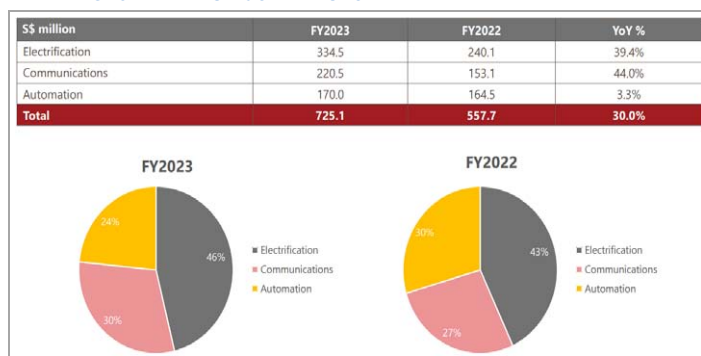
Source: Bloomberg, UOB Kay Hian

QUARTERLY ORDER INTAKE



Source: CSE

REVENUE BREAKDOWN BY BUSINESS SEGMENTS – ELECTRIFICATION IS THE LARGEST REVENUE CONTRIBUTOR



Source: CSE, UOB Kay Hian

CSE'S ELECTRIFICATION SOLUTIONS

Power Systems Protection & Control Solutions

- Power system protection and control
- Automation and communications systems for substations and switchyards
- Power asset management, monitoring and diagnostics
- Power transformers for renewable energy generation and storage
- Motor starting equipment and management
- Electrical equipment sales, maintenance and onsite servicing
- Device data collection, analytics and advisory

Data Centres

Provision of data center electrification solutions to power 24/7 operations with switchgears, RPPs, busway, and prefabricated modular solutions in modular eHouses and skids.

Electric Vehicle Charging Infrastructure

Design, engineering and integration of charging station systems to the grid.

Solar Skids Package

Design, engineer and manufacture of solar skids which provide a reliable and efficient transportable solution, including the capacity to provide solar power with battery backup for deployment in remote or harsh environments.

Source: CSE, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	725.1	780.7	836.6	894.7
EBITDA	54.4	59.4	62.5	65.7
Deprec. & amort.	16.9	20.7	20.7	20.7
EBIT	37.6	38.8	41.8	45.0
Total other non-operating income	1.3	0.0	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	32.1	35.5	38.9
Tax	(6.3)	(7.1)	(7.8)	(8.6)
Minorities	0.1	0.0	0.0	0.0
Net profit	22.5	25.1	27.7	30.3
Net profit (adj.)	22.5	25.1	27.7	30.3

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	55.9	44.5	45.6	47.9
Pre-tax profit	28.8	32.1	35.5	38.9
Tax	(6.6)	(7.1)	(7.8)	(8.6)
Deprec. & amort.	16.9	20.7	20.7	20.7
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	6.5	(8.3)	(9.8)	(10.2)
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)	(14.0)	(14.3)	(14.5)
Capex (growth)	(17.9)	(6.9)	(7.2)	(7.5)
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	39.0	14.5	16.5
Beginning cash & cash equivalent	24.1	39.4	78.0	92.0
Changes due to forex impact	(0.4)	(0.4)	(0.4)	(0.4)
Ending cash & cash equivalent	39.4	78.0	92.0	108.1

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	70.3	62.2	53.6	45.3
Other LT assets	128.3	123.5	118.6	113.7
Cash/ST investment	39.4	78.0	92.0	108.1
Other current assets	361.6	387.6	414.7	442.9
Total assets	599.6	651.2	678.9	709.9
ST debt	95.9	95.9	95.9	95.9
Other current liabilities	239.8	257.5	274.9	292.9
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	249.2	259.5	272.5
Minority interest	(0.1)	0.7	0.7	0.7
Total liabilities & equity	599.6	651.3	678.9	710.0

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	7.5	7.6	7.5	7.3
Pre-tax margin	4.0	4.1	4.2	4.3
Net margin	3.1	3.2	3.3	3.4
ROA	4.1	4.0	4.2	4.4
ROE	10.5	10.8	10.9	11.4
Growth				
Turnover	30.0	7.7	7.2	6.9
EBITDA	147.0	9.2	5.2	5.1
Pre-tax profit	246.5	11.7	10.4	9.7
Net profit	372.0	11.3	10.4	9.7
Net profit (adj.)	372.0	11.3	10.4	9.7
EPS	309.6	1.4	10.4	9.7
Leverage				
Debt to total capital	34.8	31.6	30.7	29.7
Debt to equity	53.4	46.3	44.5	42.4
Net debt/(cash) to equity	35.2	15.0	9.0	2.7
Interest cover (x)	5.4	8.9	9.8	10.7

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